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Acronyms

| | |
|---------|---|
| ADB | Asian Development Bank |
| ADB/N | Agricultural Development Bank/Nepal |
| AIC | Agricultural Input Corporation |
| APP | Agricultural Perspective Plan |
| BMZ | Federal Ministry for Economic Co-operation and Development (Germany) |
| BOVO | Build Our Villages Ourselves Programme |
| BPEP | Basic and Primary Education Project |
| BSP | Biogas Support Programme |
| DANIDA | Danish International Development Agency |
| DDCs | District Development Committees |
| DFID | Department for International Development (UK) |
| ESAF | Extended Structural Adjustment Facility |
| FACC | Foreign Aid Co-ordination Committee |
| FINNIDA | Department of International Development Co-operation of the Ministry for Foreign Affairs of the Government of Finland |
| GARDP | Gulmi Arghaknanci Rural Development Project |
| GDP | Gorkha Development Project |
| GTZ | Gesellschaft für Technische Zusammenarbeit (Germany) |
| HDI | Human Development Index |
| HDR | Human Development Report of UNDP |
| HMG/N | His Majesty's Government of Nepal |
| HRD | Human Resource Development |
| INGOs | International Non-Governmental Organisations |
| IRDP | Integrated Rural Development Programme |
| ISP | Irrigation Sector Project |
| JICA | Japanese Intermediate Co-operation Agency |
| KOSEVEG | Koshi Hills Seed and Vegetable Programme |
| MIMAP | Monitoring Micro Impact of Macro Policies |
| MoF | Ministry of Finance |
| MPHBS | Multipurpose Household Budget Survey |
| NLSS | Nepal Living Standards Survey |
| NPC | HMG/N National Planning Commission |
| NRB | Nepal Rastra Bank (Central Bank of Nepal) |
| NUKCFP | Community Forest Project |
| NRs | Nepalese Rupees |
| ODA | Official Development Assistance |
| PCDP | Praja Community Development Programme |
| PCRW | Production Credit for Rural Women Programme |
| PRODEC | Export Promotion Project |
| RWSSP | Rural Water Supply and Sanitation Project |
| SAP | Structural Adjustment Programme |
| SFDP | Small Farmer Development Programme |
| SIDA | Swedish International Development Agency |
| SKILL | Skills and Know How Imported at Local Level |
| TB | Tuberculosis |
| UMN | United Mission to Nepal |
| UNDP | United Nations Development Programme |
| VDCs | Village Development Committees |
| WB | World Bank |

Foreword and Acknowledgements

This paper is one of a series on the experiences of European donors with the use of aid for poverty reduction and is the product of a major research programme involving ten European development research institutes. This programme breaks new ground in its intention to compare and to draw on the collective experience of donors of the European Union, and also perhaps in the degree of collaboration involved by European development research centres. Each Institute funded its own participation, with ODI playing a coordinating role. The institutes involved are:

Asociación de Investigación y Especialización sobre Temas Ibero Americanos (AIETI), (Madrid);

Centre for Development Research (CDR), Copenhagen;

Centro Studi di Politica Internazionale (CeSPI), Rome;

Deutsches Institut für Entwicklungspolitik / German Development Institute, Berlin;

Développement des Investigations sur l’Ajustment à Long terme (DIAL), Paris;

European Centre for Development Policy Management (ECDPM), Maastricht;

Institute of Development Studies (IDS), Helsinki;

Nordic Africa Institute (NAI), Uppsala;

Overseas Development Institute (ODI), London;

Third World Centre, Catholic University of Nijmegen.

The first phase of this research programme described and assessed European donors’ goals, organisation and management as they relate to poverty reduction. Working papers have already been published by the Overseas Development Institute on the donor agencies of Denmark, the European Commission, Finland, France, Germany, Italy, the Netherlands, Spain and Sweden . A paper on the UK is forthcoming soon.

The second stage (of which this report is a part) consists of a series of seven in-country studies to examine the operations of the European donors in pursuit of poverty reduction in Bolivia, India, Nepal, Tanzania, Zambia, Zimbabwe and Burkina Faso. An important objective of this work is to evaluate the effectiveness of different types of poverty related donor interventions. Special attention has been paid to the nature of the processes involved. Collective and comparative experience of poverty reduction effectiveness, including ‘best practices’ and the main determinants of effectiveness will be examined on the basis of these seven in-country studies. Working papers have already been published on Zimbabwe and Tanzania.

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John Healey
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Map of Nepal

Summary and Conclusions

Purpose and Focus of the Study

This study is part of a larger programme of research focusing on the use of aid for poverty reduction (PR). It restricts itself to the European donors with the largest aid programmes in Nepal: Denmark, Finland, Germany, the Netherlands, the United Kingdom and the European Commission. The paper discusses the issues of aid and poverty reduction at three different levels: the public policies for PR in Nepal (Chapter 1); the role of foreign assistance in general (Chapter 2) and a comparative analysis of European donors' approaches (Chapter 3). It then presents the results of empirical investigations of 'best practice' interventions by the selected donors (Chapter 4) as well as Nepalese perceptions of European donors' aid for PR (Chapter 5).

Conclusions for Donor Policies

The study suggests that Nepal is an over-aided country where weakly co-ordinated donors are funding and running too many projects which do not have PR as a consistent priority. It also suggests that donors are seriously interested in improving their PR performance. To narrow the gap between best and poor practice, and between official PR commitment and in country operations, the following conclusions are drawn on ways in which the donor agencies might contribute more effectively to PR in Nepal.

Good Governance

The most important basic contribution that donors can make is helping the government to introduce, institutionalise and implement good governance standards. Donors can help to reform the civil service and other organs of the government to make them more efficient and competent, accountable and transparent, decentralised and participatory and less corrupt. Good governance cannot be installed from outside without the political support of the country's leaders. But a concerted and energetic insistence by major donors on good governance will certainly have a substantial impact on any government in Nepal. Donors could help in devising and installing an effective incentives system in addition to using their leverage to push civil service reform as a basic condition. Donors should impose strict conditionality in accountability, transparency, non-corruption and a decentralised, participatory approach in donor-funded projects. Projects should be approved, extended or cancelled based on governance-related performance criteria.

More Pro-Poor Aid

To increase the pro-poor character of aid donors need to reduce the concentration on large physical infrastructure projects and programmes, and shift the allocation of aid more towards the social and human development sectors, especially the basic social services. In physical infrastructure, maintenance of the existing stock should be emphasised as much as new construction. The focus of aid should be on building rural infrastructure, integrating of rural and remote areas with the national economy and markets, building tourism infrastructure and developing the of power sector, with due regard for ecological, social and fiscal concerns. Rural electrification – based on power generation from renewable sources such as micro-hydro sources – should be emphasised for poverty reduction.

Donors should restructure their aid to achieve the 20/20 compact of the 1996 Social Summit, in view of the fact that the education, health and drinking water sectors combined received only about 15% of the total aid disbursed during 1990–95, with less than 12% being devoted to human priority sub-sectors. This could be done most effectively as a collective action by the (European) donors. Some first steps could be: to organise national round-table discussions bringing together relevant stakeholders to encourage participatory poverty assessment; to clarify the respective roles of the government, the private sector and civil society in the provision of basic social services; to carry out analytical groundwork including (a) a review of social sector expenditure and (b) participatory assessment of the delivery of basic social services; to integrate the provision of basic

social services into a longer-term comprehensive National PR Action Plan; and to develop an implementation strategy including monitoring and evaluation and impact assessment.

Country Programming

Most donors lack a thorough understanding of the political and socio-cultural aspects of poverty. The geographical dimensions of poverty and deprivation are only superficially known and play a minor role in project identification and selection. Dialogue with the intended beneficiaries barely takes place, and dialogue with representatives of the Kathmandu-based (I)NGOs cannot really substitute for it as they are often too far away from the social realities. Donors often know little about each other's failures and successes.

Country programming for effective PR therefore requires a better understanding of the socio-cultural and geographical context of poverty in Nepal; an updated assessment of the poverty policies and programmes of HMG/N; and a clearer conception of pro-poor growth and how it can be achieved. As donors increasingly share a common interest in PR, more co-operation among agencies in areas such as participatory poverty assessment and pro-poor policy formation should be undertaken. Local and regional research organisations should be commissioned to undertake the necessary research.

Donors should also pay more attention to the choice and balance of modes of intervention. This requires a better understanding of what is actually needed and what has proved to be feasible in the Nepalese social and political context. A sound balance between pro-poor growth-stimulating interventions and sectoral policy reforms, on the one hand, and directly or indirectly poverty-reducing interventions, on the other, can only be achieved if donors strengthen the co-ordinating capacity of HMG/N and pay more attention to a division of labour rather than competition among them. The formulation of country strategies therefore needs to be based on a transparent consultation process involving the relevant stakeholders including other donors.

Modes of Intervention and Best Practice Approaches

Project interventions have proved that poverty can be reduced. The impact on the overall poverty situation often remains insignificant, however, because successful approaches are not replicated in national programmes. The Nepal case study shows that too much experimentation and piloting may even be counterproductive if there is no effective screening mechanism in place. The establishment of an independent *Poverty Impact Monitoring Unit* jointly operated by local research organisations and interested donors could improve the situation. It could undertake impact studies of donor-assisted projects, provide consultative services with a focus on poverty to donors and promote professional discussion among the relevant local players from government, donors and civil society.

An increasing number of donors favour sector-wide approaches, but sector and policy reform efforts need to be built on locally tested technical and institutional solutions. Nepal, in particular, needs location-specific solutions for its diverse ecological and socio-cultural environment. A balanced mix of decentralised donor actions via line ministries (sector-wide approaches), local governments (social or poverty fund models), and via civil society organisations (social organising approaches) may be most appropriate. But such actions will only work if central government can effectively co-ordinate the donors.

Though the sample of best-practice case studies examined was small (12), some conclusions emerged. Donors should improve the targeting and the participation of the poor, especially in the design stages of projects. Participatory approaches are personnel-intensive and costly if carried out by project personnel. Sustainability is at stake if organisational development at the local level and financial resource mobilisation are not given high priority.

Interventions tend to be more PR effective and sustainable, if gender aspects have been given appropriate attention. Gender analysis should be made standard practice in project identification and design. The project impact upon the poor can be systematically evaluated only when PR is a stated objective and/or is included in the system of indicators regularly monitored. Poverty impact

assessment implies the provision of sufficient funds for social science research and post-project evaluations.

Donor Co-ordination

Current co-ordination efforts are too donor-centred. Donors should assist HMG/N in effective aid co-ordination in order to avoid duplication, wastage, conflict and loss of impact because of scattered and unco-ordinated interventions, and in order to enhance synergy, complementarity and sustainability. Instead of competing, donors should be collaborating and complementing each other, and there should be an effective mechanism for exchange of experience and learning from others so that the same mistakes are not repeated in different projects by different donors.

1. Government Policy and Poverty Reduction

The Poverty Problem

Poverty in Nepal is pervasive, largely chronic and is reflected in all dimensions of social and human life. The per capita income of about US\$ 200 p.a. puts Nepal among the ten poorest countries in the world, with only sub-Saharan African countries below this level. Nepal lags behind its neighbours in almost all key aspects of socio-economic progress, and behind the average for the 49 low-income economies. It is one of the poorest countries not only in terms of income (approx. 50% of the population live on less than US\$ 1 PPP per day), but also in socio-economic aspects such as life expectancy, infant and maternal mortality, adult (especially female) illiteracy, per capita commercial energy consumption and malnutrition.

The UNDP's *Human Development Report* of 1996 introduced an alternative measure of poverty, namely a Capability Poverty Measure (CPM) based on three indicators: the percentage of underweight children under 5 years (a proxy for the nutrition and health status of the population); the percentage of births attended by trained personnel (a proxy for access to reproductive and other health services); and the percentage of female adult illiteracy (a proxy for basic educational attainment plus information on gender inequality and treatment of the most deprived group). According to this measure, Nepal is at the bottom in a list of 101 countries for which such data are available. On average 77% of its population suffer from deprivation or capability shortfalls in these three basic dimensions of human development: 51% of children under five are underweight, 94% of births are unattended by trained health personnel and 87% of adult females (age 15 or above) are illiterate. Thus the statistics indicate that Nepal needs to invest more in human development, particularly in basic education and literacy and in providing food, nutrition and health care to the general public, especially rural people, mothers and children.

The Policy Environment

Popular participation in government is very limited, despite the advent of multi-party democracy and decentralisation with the new 1990 Constitution. This may have changed the process of government, but not the attitude of the powers that be. Some delegation of authority has taken place but there has been little real devolution of power. Nor has decentralisation yet had any major poverty-alleviating effects, as effective participation of the poor (and of women) in decision-making bodies at the local level is still lacking.

The socio-cultural structure remains hierarchic and authoritarian. Traditional discrimination against women is further reinforced by various customs that promote conspicuous consumption in a society where the majority of the population are struggling for mere daily survival. For example, the dowry system is still prevalent, while daughters are excluded from inheriting parental property and are thus second-class citizens and a burden for most poor and middle-income families. In such circumstances it is not possible for them to have equal access to education, health, and other social services, or to participate effectively in the decision-making process whether inside or outside their homes. Their participation in any form of government is therefore minimal.

Similarly, the hierarchical caste system has severe consequences for the participation of many 'low-caste' families. A clear manifestation is the overwhelming dominance of the major political parties by non-Madhesi' (those not belonging to the indigenous castes) Brahmins, Chhetris and Newars. The 'poor' of both sexes and all castes and ethnic groups are virtually absent from the decision-making process. In the rural areas, it is the amount of land and livestock owned, or residential property, which usually decides a person's position in society and in local government. This is reinforced by an individual's connections with the urban elite or political leaders. Decentralisation in the form of empowerment of the masses and their participation in development

and government would thus require considerable change in the socio-cultural power structure, and in attitudes and values.

Nepal has consistently lacked good government. No one is held accountable for non-performance or mismanagement. There are almost daily reports of misuse of public funds by highly placed officials, but rarely is action taken except to penalise subordinate officials as convenient scapegoats. Transparency is lacking in procurement, recruitment, the awarding of contracts, appointments, hiring, firing or even selling public properties, rent-seeking behaviour is thriving and very few people are interested in genuine entrepreneurship. Most projects end up benefiting the urban and rural elite and the relevant officials, consultants, and contractors. Many of those interviewed for this study complained that the government's attitude still seems to be to rule the people rather than to serve them. The poor have never become a priority issue for policy-makers. This largely explains the failure of past interventions to alleviate poverty and bring about overall development.

A Review of Poverty Reduction Programmes

For the last forty years or so the focus of planned development effort has been on creating physical infrastructure, such as roads, bridges, telecommunications, irrigation, bank branches, post offices, hydroelectric projects, etc. Some work has also been carried out in delivering social services, such as hospitals and health posts, schools, drinking water, etc. A redistributive policy with the potential to lead to rural poverty reduction was initiated in 1964 with the Land Reform Act which instituted land ownership ceilings, tenancy rights and rules to safeguard farmers from the exploitation of moneylenders. But because of a lack of real political commitment this initiative failed to bring about a significant change in the highly skewed distribution of land and the feudal, absentee landlord system. Similarly, tenancy was not secured effectively and informal tenancy remains prevalent in the country.

The government revealed explicit concern with poverty alleviation with the announcement of the Basic Minimum Needs Programme in the Sixth Five-Year Plan (1980–85). The basic needs identified were for food, fuelwood, drinking water, basic health and sanitation, primary education and literacy, and rural transportation with clothing added in the Seventh Five Year Plan (1985–90). The strategy followed in both these plans was to enhance the supply of basic goods and services, but the plans lacked effective measures to increase the incomes of the poor. In any event the plans were not implemented effectively enough to make any appreciable impact on the poverty situation.

Subsidy and Transfer Programmes

The subsidised distribution of food carried out by the National Food Corporation has made very little impact on the food security of the poor. Most of the food goes to civil servants to compensate them for remote postings and to the population of the Kathmandu valley. Only about 25% goes to the most remote areas and then it is not targeted on poor families. This programme is hindered by inefficient management, transportation and targeting, and is too small to benefit the millions of poor in the country. The fertiliser subsidy programme carried out by the Agriculture Input Corporation (AIC) has also had little impact on the poor; very few poor farmers use fertiliser, supplies through the AIC are unreliable, and the subsidised fertiliser is smuggled to India. Similarly, the interest and capital subsidies provided through the Agricultural Development Bank of Nepal (ADB / N) to encourage productive investment in agriculture have had little impact on the poor, since less than 10% of this credit is estimated as going to small farmers.

The World Food Programme's Nutritious Food Programme has three components: community distribution of food to malnourished children under the age of 6 and pregnant and lactating women, an on-site primary school feeding programme, and an institutional feeding programme for orphanages and nurseries. The number of beneficiaries has been around 200,000, but the targeting is poor. The primary school feeding programme in particular benefits few poor children who show a poor school attendance record.

UNICEF's Joint Nutrition Support Programme has attempted to co-ordinate the activities of four Ministries concerned with nutrition, agriculture, food storage, sanitation, education, women's income generation, etc., in order to address the multiple causes of malnutrition as a group. The programme has not proved very effective, however, as it is excessively complex and is not the sole responsibility of any one Ministry or a high priority in any of them.

The Food for Work Programme supported by the WFP has the potential for creating millions of workdays of employment in rural areas during the slack season in farming. A substantial proportion of the wage is paid in kind, which is attractive mainly to the rural poor so that the programme is largely self-targeting. Moreover, the roads, trails, bridges and irrigation schemes built under the programme can have a long-term impact on the rural areas covered, and targeting can be improved by selecting income-poor areas for this infrastructure. By 1998 the government had reached an agreement with WFP to expand the programme to forty districts of the country and the GTZ also started to support it with technical assistance in its management aspects. The major constraint on expansion of the programme is its substantial cost (in the form of food transportation and handling) which has to be borne by the government.

Integrated Rural Development Projects (IRDP)

A number of IRDPs have been launched during the past two decades by different donors in various areas of the country. The IRDPs are not specifically poverty alleviation projects, but many of their beneficiaries are poor since they are located in relatively poor areas of the country.

The common strategy has been to strengthen the capacity of government services to reach small farmers by concentrating resources (professional, technical and financial) in a particular region to service community needs. Activities have included productive agriculture, forestry and soil conservation, livestock, human resource and social development, infrastructure, off-farm income generation, cottage industries and institutional development. However, few IRDPs have made a satisfactory impact (when compared with similar investment in intensive agricultural programmes) because of their many components, which make their implementation difficult to manage, and also because of their supply-driven nature based on the availability of funds and the need to meet lending targets. Moreover, the need for the co-ordinated involvement of various line agencies (which are vertically structured) is difficult to achieve in Nepal at the district/local level.

Access to Credit for the Poor

Improving access to institutional credit for the poor has been a major concern for both Nepalese Government and the donors. A list of targeted credit programmes is shown in Table 1.1.

A survey of rural credit in the late 1990's by the Nepal Rastra Bank found that 86% of farm households still borrow from non-institutional sources of credit, while 20% have used institutional credit and 6% have used both. This is a disappointing result by 1998, three decades after the establishment of the Agricultural Development Bank (ADB/N) to provide credit to farmers and agro-based enterprises. The ADB/N has been expanding its network throughout the country with 571 branches, sub-branches, sub-project offices and zonal offices. But the situation of rural credit, especially with respect to small/marginal farmers, the poor and women, seems to have changed very little from the situation 20 years ago.

The major problem with all these programmes is their limited coverage, and – in some cases – their experimental nature, with practical difficulties in replicating at the national level because of high delivery costs and the need for dedicated field staff. For example, Production Credit for Rural Women Programme (PCRW) after 14 years of operation and expansion to 64 districts (out of 75 in Nepal) is currently benefiting only about 16,000 rural women directly (according to the Nepal Rastra Bank Governor's annual speech of 1996). Even the Small Farmer Development Programme (SFDP), which has been in operation for over two decades and has by far the largest potential coverage of all, covers only about 6% of all rural families. Moreover, the targeting in the SFDP is very poor, in that a significant proportion of the beneficiaries are large and medium sized rather than small farmers. Similarly, the Grameen Bikas and Neerdhan Banks have so far covered only

about 50,000 customers, although their targeting is satisfactory (based on ownership of land). The major challenge for these banks is expansion to reach the poor, especially in the hill areas. So far only the Terai – the lowland plain – is covered.

Table 1.1 Targeted Credit Programmes in Nepal

| Name | Started | Donors | Objectives and Activities | Remarks |
|---|---|---|---|--|
| Small Farmers Development Programme (SFDP) | 1975/76 | FAO, IFAD, GTZ, UNICEF, UNFPA, ADB, NRB | Small farmers (farmers with small holdings, landless labourers, tenants, sharecroppers, cottage industry artisans, etc.) are organised into credit groups, various support services provided including family and community welfare activities. | Weak targeting and small coverage, collateral-based, recovery rate low (up to 60%) and high overhead costs, problems of staff motivation & efficiency. |
| Production Credit for Rural Women (PCRW) | 1982 | IFAD / ADB/N, UNICEF, SNV, Peace Corps | Delivers Intensive Banking Programme Credit to rural women by forming women's groups. Other assistance also provided to help save labour and time through access to water, child care centres, health / nutrition, family planning and improved stoves, environmental protection. | Very high overhead costs if credit delivery only; low coverage; staff problems; problems of marketing, technology and raw materials not resolved; recovery rate above 80% but delivery cost very high (42%). |
| Intensive Banking Programme (IBP) | 1974 as small sector credit, 1976 as priority sector credit and 1981 as IBP | NB Ltd., RBB and NABIL | Provides credit to those low income families who cannot afford collateral, on project viability and group guarantee. | Spread over 74 districts and about 340 bank branches, but coverage (beneficiaries) still small and targeting weak, recovery only about 44%. |
| Regional Rural Banks for the Poor or Grameen Bikas Bank (GBB) | 1992 | HMG/N, NRB and other financial institutions. | A copy of Grameen Bank of Bangladesh for assisting the poorest women living in rural areas through credit for income generation on group guarantee. | Well targeted, and 100% recovery. But overhead costs in the initial few years very high. As yet only Terai (no Hill) villages covered. |
| Neerdhan Bank | 1991 | Grameen Trust of Bangladesh & borrowings | A copy of GBB in the NGO sector. | Has become almost financially viable after few years of operation. |
| Micro Credit Project for Women | 1994 | NBL, RBB, ADB and Japanese special grants, Norway | Involve NGOs as financial intermediaries and provides small credit to women (including urban) through self-help groups for income generating activities. Banks compensated up to 80% in case of loan loss. | A new programme with low coverage, but 100% recovery. Selection of suitable NGO, is crucial. |
| <i>Note:</i> In addition to above-mentioned programmes, the commercial banks are mandated to provide 0.25% to 3.0% of their loans to the poor, depending on their years of operation. | | | | |

Poverty Reduction in the Eighth Plan (1992–97)

The Eighth Plan (1992–97) aimed to reduce the poverty incidence of 49% (1992) to 42% by 1997, lifting approximately 1.4 million people to non-poor status through various programmes.

However, poverty incidence seems to have worsened rather than improved during the Eighth Plan period. The poverty reduction strategies and programmes were not implemented effectively.

No poverty mapping exercise was carried out. The Nepal Living Standards Survey is not capable of identifying and mapping poor families and underdeveloped areas. Employment generation due to growth during the Eighth Plan period seems to have been below 2% per year. There are two other employment-generating programmes (in the public sector), apart from the Rural Infrastructure Programme (food-for-work) supported by WFP/GTZ. The unemployment rate increased from 8% to 14% between 1992 and 1997, and the underemployment rate has also increased.

Not only has the growth rate remained low but the sectoral distribution of growth was also not pro-poor. The agriculture sector grew at only 3% on average against the target of 3.7%. Most of the labour force (81%) still depends on agriculture as the main occupation. Reduced growth in agriculture therefore implies a negative impact on the existing poor.

1.5 PR Policies and Programmes in the Ninth Plan (1997–2001)

The most recent Ninth Plan stipulates poverty reduction as its overriding goal. It also proposes a long-term poverty alleviation perspective as follows: the incidence of poverty should be reduced within 20 years from 45% (1997) to 10% (2017).

This twenty-year goal is set in line with the twenty-year Agricultural Perspective Plan (APP). ‘The Approach Paper’ argues that it becomes increasingly difficult to reduce the incidence of poverty further as the percentages fall because the residual poverty consists of the hard-core or ‘Ultra’ poor who need substantial socio-economic intervention and assistance to graduate out of poverty (since they fall very far below the poverty line). The basic assumptions on which the strategies of the Ninth Plan are based are as follows:

- growth is ‘necessary’ but not ‘sufficient’ for sustained poverty reduction. Growth must be deliberately designed to be pro-poor;
- poverty cannot be eliminated without empowering and involving the poor themselves;
- inequalities, discrimination and disparities have to be gradually mitigated if there is to be wide sharing of the fruits of growth as well as active popular participation in the growth process. Such inequalities and disparities can be regional (such as Hill vs Terai, East vs West, and rural vs urban), social (such as disadvantaged ethnic groups and castes), gender (male vs female), and economic (highly skewed distribution of land);
- improving the access of the poor to basic social services, infrastructural facilities, economic resources, and information (technology) is the key to their empowerment;
- good governance including decentralisation, accountability, transparency, predictability, the rule of law and the elimination of inefficiency, corruption and misuse of public resources, is essential for effective poverty reduction as well as for overall development.

Based on the above basic principles, the strategies for poverty alleviation in the Ninth Plan are:

- a) *Pro-poor economic growth*

Emphasis is to be given to the promotion of growth in agriculture, agro-related industries, cottage and small industries, tourism and construction, all sectors which create employment opportunities for the poor.

b) *Employment generation*

The government intends to create an environment conducive to private sector investment in employment generating activities. Skill training, credit, marketing and other technical assistance will be provided for self-employment. Employment will also be created through public-sector investment in rural infrastructure building and by adopting labour-intensive technology in all development works.

c) *Human resource development*

Emphasis will be given to basic and primary education, literacy, non-formal education, vocational and trade-related training, primary and preventative health care with effective rural service delivery, nutrition, mother and child health care and family planning, and supply of drinking water. Access of rural people, in particular poor and disadvantaged groups (including women and girls), to these services will be improved by means of adequate public investment and efficiency in service delivery.

d) *Poverty alleviation fund*

A poverty alleviation fund will be established, to be used for targeted poverty alleviation programmes, poverty mapping and monitoring and social (community) mobilisation programmes involving the poor, women and disadvantaged groups.

e) *Other targeted programmes include:*

The Small Farmers Development Programme (SFDP), Production Credit for Rural Women (PCRW), Remote Areas Special Programme, Disadvantaged Ethnic Groups' Programme, Special Programmes for Landless Rural People, for Small Farmers, for the Elimination of Bonded Labour in Western Nepal, for the squatter population and for the educated unemployed, especially in urban areas, Grameen Bikas Bank and other targeted credit programmes, Rural Infrastructure (Food-for-work) programme, etc. Many of these are on-going programmes.

Summary

The Economic and Political Context

Poverty in Nepal is pervasive, largely chronic and is reflected in all dimensions of social and human life. It is estimated that almost half the population live in poverty, mainly in the rural areas. Sluggish economic growth, high population growth, a virtually stagnant agricultural sector, high levels of food insecurity, and a slow pace of industrial development describe an economic environment which is not conducive to sustainable poverty reduction. In addition, there are high income inequalities and the distribution of land remains highly skewed, even after the implementation of land reform in 1964. In an agrarian (semi-feudal) economy, the disparity in land-holding determines disparities in other aspects of life, such as education, health, social status, and access to credit and other services. A rigid caste system in which the Brahmin-Chhetri, together with the Newars are virtually in control of most strategic positions in society and in command of the bulk of productive resources inhibits broad-based economic and social development.

Good governance has been lacking in Nepal. There is virtually no accountability for non-performance and mismanagement. Rent-seeking behaviour thrives at the expense of genuine entrepreneurship. The situation has not really changed since the introduction of more democratic multi-party elections in 1990. People's participation is still very limited despite a multi-party political system and various efforts at political, administrative and institutional decentralisation.

An effective empowerment of the disadvantaged groups and the poor would require drastic change in the socio-cultural power structure, attitudes and values.

The focus of the planned development efforts of Nepalese governments during the last forty or so years has been on creating physical infrastructure such as roads, bridges, telecommunications, irrigation, power plants, etc. Some effort has also been directed towards the improvement of the social infrastructure such as schools, health posts, hospitals, drinking water supply etc. The basic strategy followed in the Sixth and Seventh Plans (1980–90) was to enhance the supply of basic goods and services, but it lacked effective measures to raise the incomes of the poor. The overall impact on the poverty situation insignificant, although some targeted programmes helped a limited number of poor beneficiaries. During the Eighth Plan (1992–97) the incidence of poverty seems to have worsened. Economic growth remained low and its sectoral distribution was not pro-poor. Poverty reduction strategies and programme were not implemented effectively. The Ninth Plan (1997–2001) stipulates poverty alleviation as its overarching goal. The strategic concept focuses on pro-poor growth, employment generation, human resource development, targeted programmes and the establishment of a Poverty Alleviation Fund.

2. Foreign Aid to Nepal – the Aid Dependency Syndrome

2.1 A Brief Review

Foreign aid programmes in Nepal began in 1951 with technical assistance from the United States and India, followed by capital aid from India in 1952 and the US in 1955. The strategic location of Nepal between India and China and its non-aligned friendly relations with all countries, including the two superpowers, helped to increase the volume of aid from a trickle to a torrent after 1956. Up to 1979/80, the US, India and China together provided more than three quarters of the total bilateral grants. Nepal's participation in the Colombo Plan in 1952 had brought bilateral aid from the UK, India, Canada, Australia and Japan for several years. The Nepal Aid Group formed in 1976 under the auspices of the World Bank has enlarged its membership to more than two dozen multilateral donors like the IDA/WB, the IMF, the European Union, UNCTAD, the Asian Development Bank and UNDP. At present this Group provides more than 90% of all aid to Nepal. As shown in Table 2.1, Nepal's first Five-Year Development Plan was almost entirely funded by foreign aid. This share declined to 45% by the Fourth Plan, but started increasing again to reach over 70% in the Seventh Plan.

Table 2.1 Foreign Aid Disbursements as Percentage of Public Sector Development Expenditure

| Period | Year | % |
|--------------|---------|--------|
| First Plan | 1956–61 | 100.00 |
| No Plan Year | 1961/62 | 81.9 |
| Second Plan | 1962–65 | 77.8 |
| Third Plan | 1965–70 | 56.1 |
| Fourth Plan | 1970–75 | 45.1 |
| Fifth Plan | 1975–80 | 48.0 |
| Sixth Plan | 1980–85 | 47.9 |
| Seventh Plan | 1985–90 | 70.6 |
| Eighth Plan | 1992/93 | 55.2 |
| | 1993/94 | 56.8 |
| | 1994/95 | 60.5 |
| | 1995/96 | 57.2 |
| | 1996/97 | 58.8 |

Sources: Various Economic Surveys and Budget Speeches

Note: The period 1990–92 is excluded as a Plan holiday as well as a transitional period.

During the Eighth Plan period the share of foreign aid fluctuated between 55% and over 60% of government's development expenditure. The foreign aid dependence of Nepal is second only to Bhutan in the South Asian Association for Regional Co-operation (SAARC) region.

Another trend in the aid flow to Nepal is the increasing share of loans and multilateral assistance (IDA/WB, IMF and ADB). Multilateral assistance comprised about one-third of total aid two decades ago, but increased to around one-half by the early 1980s and is at present more than three-quarters. Loans have also increased from less than 30% two decades ago to about 70% in recent years, the rise during the mid-1980s and early 1990s being due to loans under the Structural Adjustment Programmes (SAPs).

The foreign debt burden of Nepal is also accumulating at an alarming rate. The total external debt increased from US \$205 million in 1980 to \$2,320 m. in 1994, an annual growth rate of 18.9% while the economy grew by only about 4.7% per year. The debt has thus increased not only in absolute terms but also relative to the size of the economy, from about 2% of GDP two decades ago to more than 50% recently.

As a consequence, the share of foreign debt servicing in regular public expenditure has grown from about 2% to about 20% in two decades. In the future an even larger percentage of the regular budget will have to be allocated for foreign debt servicing as many loans will be approaching maturity and their grace periods will have expired. This is an alarming trend, although the loans received by Nepal are on very soft terms as compared with its neighbours.

2.2 Issues in Aid Utilisation

In Nepal foreign aid disbursement has in general been far below commitments. For bilateral aid the utilisation rate was 41% on average in 1985–90 though it rose to 47% in 1990–95. This reflects low absorptive capacity, excessive delays in project implementation mainly caused by too many projects, and poor administration.

In addition to technical factors, the lack of national ownership and of political commitment contributes to the low utilisation rate. The government has been criticised for its failure to initiate its own independent development plans and programmes. In general, the donors produce their own assistance programmes and project proposals in which the government is not fully involved and which it usually accepts with only minor changes and modifications. Rarely is a donor's proposal rejected. The government's line agencies strive for more and more aid because of the advantages of having such money to play with, plus access to foreign experts, computers, vehicles and other equipment, and modern facilities, foreign trips, etc. As a consequence the number of donor-assisted development projects has increased tremendously. At the same time the government is unable to allocate adequate counterpart funds and manpower to the large number of projects, many of which suffer because of a delay in the release of funds, which in turn results in low aid utilisation and cost over-runs.

A lack of commitment at the highest level contributes to delays in the implementation of foreign-aided projects. This problem is aggravated by the frequent changes of government which also result in changing priorities and administrative personnel in all line agencies, especially at the senior level. For example, during the preparation and implementation of the World Bank/UNDP/European Union-assisted Second Forestry Project four ministers, five permanent secretaries and seven project managers were involved. The project period was revised twice and the project came to an end in 1992/3 leaving an unspent balance of 3 million Special Drawing Rights (SDR), while 8 million SDR were cancelled out of the total loan amount of SDR 14.85 million (Ghimire, 1996).

Some problems, however, also result from the exercise of leverage by donors, such as procurement tying or insistence on compliance with donors' own procurement, recruitment and accounting procedures and conditions. For example, in 1993 the Ministry of Information and Communications received aid for the Nepal Telecommunication Corporation Projects from seven donors, each with its own accounting procedures which are more demanding than those used by the Ministry for its own funds. It is very difficult for Nepal's weak administration and overloaded staff to comply with all of them and keep all the donors satisfied.

Some multilateral donors attach a number of conditions to the aid package including changes in legislation, improvement in institutional mechanisms, changes in subsidies / tariffs, and compliance with their tendering, contracting, recruiting and procurement standards / procedures. When negotiating, Nepal usually accepts such conditions for fear of losing the aid. In the case of SAPs and the IMF's Extended Structural Adjustment Facility, the Government agrees to comply with all the conditions for fear of displeasing other donors who may be influenced by the evaluation of Nepal's economic performance by the IMF and World Bank.

The lack of flexibility in most aid projects creates problems of delays and reduced disbursements. One inflexibility is the implementing agency's lack of authority to shift funds from one purpose to another. Aid tying aggravates these problems. Donors are generally reluctant to support the recurrent costs of aid-funded undertakings, yet in a country like Nepal many of the initiatives required for reducing poverty in areas such as health, education, and rural infrastructure incur considerable recurrent / operational costs.

Apart from such problems on the donors' side, the weaknesses in the Nepalese Government's development administration and aid management can be briefly summarised as follows:

- (a) The development expenditure of HMG/N amounts to around 11.5% of GDP. However, its revenue surplus (total revenue less regular expenditures such as debt servicing, salaries and other administrative expenses) which can be used for development programmes and projects is less than 3% of GDP. The government is thus not able to fund the promised counterpart allocations in many aid-funded projects, with the resultant delay in implementation.
- (b) The government's staff recruitment procedure is slow and cumbersome, causing understaffing in many projects for long periods. Project staff consider their jobs as temporary and leave the project as soon as they find permanent employment elsewhere. There are also problems of staff motivation, incentives and terms of service. Civil service salaries and benefits are very low, and many qualified civil servants seek parallel professional consultancy jobs. For staff working in remote areas opportunities for career development are very few, and their allowances quite insufficient in relation to the hardships they and their families have to experience. Government staff do not therefore want to leave Kathmandu and other urban and convenient areas, and field visits are not carried out adequately.
- (c) Decision-making is highly centralised and field-level staff have little autonomy over administrative and financial decisions. Project managers have to spend a lot of time in the centre obtaining approval in the case of tenders, contracts, recruitment, procurement and budget releases.
- (d) There is a lack of institutions providing effective training for project identification, formulation, implementation, management, and evaluation. Project managers' skills are weak in such tasks as drawing up terms of reference and plans of operations, recruitment, negotiating with international contractors and suppliers, financial administration and accounting. Both government and donors have done little to solve this chronic problem of lack of trained and competent managers and other project staff, or to establish institutions for such manpower development.
- (e) Abuse of authority, corruption, rent-seeking, nepotism, political interference in economic decision-making and other such problems cause serious leakages so that the actual benefits to target populations are much lower than the levels expected from the original investment in the projects.

Nepal receives a large number of experts and advisers under technical assistance from various donor agencies. It tends to accept consultancy services in any area without much consideration of their domestic availability. The performance of many expatriate consultants is below expectations because they need a lot of time simply to understand the country's complex rigidities and structural weaknesses. Many of them develop close connections with senior government officials because of their ease of access to officials at the highest level. With their high remuneration, privileges and special treatment, these consultants and advisers arouse a sense of envy and inferiority among their national counterparts and have a negative impact on their morale.

2.3 Issues in Aid Co-ordination and Mobilisation

In 1968 the Ministry of Economic Planning was dissolved and the National Planning Commission (NPC) was established as an advisory body. The task of foreign aid mobilisation was shifted to the

Ministry of Finance. Since then the MoF has acted as the focal point for all donors, in addition to its normal functions related to fiscal policy and budget preparation. It has a separate Foreign Aid Co-ordination Division (FACD) which, within the limits of national development goals, policies and priorities set by the NPC, negotiates with donors for aid mobilisation, usually in response to requests from Ministries. This division is guided by a Foreign Aid Co-ordination Committee (FACC) chaired by the Prime Minister, and consisting of other Ministries, the Vice-Chairman of the NPC, the Governor of the Central Bank (Nepal Rastra Bank) and other high officials from line agencies. In the case of grant assistance from INGOs, the Social Welfare Council (SWC) has been made the focal point for co-ordinating NGO activities and concluding / approving agreements. A four-tiered co-ordination mechanism exists to ensure efficient use of donors' and the government's resources devoted to aid projects:

- (a) *The Consultative Group or the Nepal Aid Group (NAG)*. The Nepal Aid Group (NAG) of donors was formally established in 1976 under the chairmanship of the World Bank as Convenor. The World Bank assists HMG/N in organising a meeting of the NAG every 18 months in Paris. As co-ordinator, the Bank presents a detailed assessment of the current economic situation, government priorities, plans, and performance with regard to economic reform and project implementation, and the need for external assistance, the government presents a report on Nepal's economy and external assistance requirements (prepared mainly by MoF). Based on these presentations and their own assessments, the members of NAG make their pledges regarding assistance to Nepal, and indicate the project areas of their preference. This NAG arrangement is very important as its members contribute about 90% of all aid to Nepal.
- (b) *The Local Aid Group*. In 1983, a Local Aid Group was established under the chairmanship of the Ministry of Finance with representatives from the World Bank, UNDP and other bilateral and multilateral donors. At present this Group meets several times a year to discuss major development policy issues and matters of mutual concern. Nepal has separate co-ordination arrangements with non-NAG countries like India, China, Pakistan, Bangladesh, etc. for socio-economic co-operation. Moreover, China and India approach MoF via the Ministry of Foreign Affairs (MoFA).
- (c) *The Donors' Only Meeting*. This is convened jointly by the UNDP and the WB representatives every month (without Government participation) to discuss matters of common concern and exchange of information among donors.
- (d) *Sector Co-ordination Meetings*. These meetings are convened by the sectoral Ministries, always in co-operation with one or two donors who act as lead-agencies in the given sector, to discuss ways of advancing the government's development plans in the sector, and to co-ordinate donors' support for the sector. Table 2.2 shows the existing and proposed sectoral co-ordination groups in Nepal.

Assessment

Despite the above arrangements for aid co-ordination at different levels, Nepal's system of foreign aid suffers from excessive duplication and proliferation of projects in a number of sectors and regions of the country. There is a failure to match demand or need with the supply. Projects are usually supply-driven, based mainly on the donors' own priorities and perceptions about Nepal's developmental needs. There is also minimal sharing of information and experience among donors, and instead of complementarity there is frequently competition among donors to promote their own projects / programmes.

An important challenge is posed by the unco-ordinated, unrecorded and unreported activities of hundreds of NGOs which have been mushrooming in Nepal in the 1990s. At present substantial

funds flow through NGOs especially in the social sectors, but they are not linked with the mainstream developmental programmes / projects of the government, nor are they reflected in the Budget Book (Red Book). The District Development Committees and many others in Nepal see a need to streamline the activities of NGOs and to co-ordinate their small, scattered programmes to avoid the duplication of activities, as well as to establish synergistic relations with the government's development programmes.

Another concern of the Nepal-based aid agencies is the large number of pilot projects by various donors in different parts of the country. Instead of building upon their successes to make them nation-wide programmes under national ownership, fresh experiments are conducted with new pilot projects under different names.

Table 2.2 Existing / Proposed Sectoral Co-ordination Groups in Nepal

| | Sector / Sub-Sector | Convenors | Donors Expressing Interest in Participating |
|----|---|--|---|
| 1. | Agriculture (including the APP) Sub-Groups: (a) Irrigation (b) Sericulture (c) Agriculture Research | USAID / ADB / HMG/N WB / HMG UNDP / HMG HMG | WB; Denmark; UK; UNDP; FAO; ADB; EU; Japan / JICA; USAID; Lutheran World Service WB; ADB; FAO; Japan / JICA; UNDP; USAID UNDP; SAN; JICA; Lutheran World Service; S. Korea SDC/N; WB; USAID; AsDB; UK; JICA; FAO |
| 2. | Good Governance ¹ (a) Democracy ² (b) Local Government / Decentralization ³ | UK / HMG Denmark / HMG UNDP / HMG | To be decided. UK; UNDP; Denmark; US; USAID (others to be added) Denmark; UNDP; UK; SDC/N; Germany; USAID; WB; ADB; EU; SNV; Finland; Canada; US Embassy |
| 3. | Disaster Preparedness | UNDP / Min. of Home Affairs | All bilaterals, multilaterals, INGOs; Nepal Red Cross, and appropriate Gov't agencies |
| 4. | Education Sub-Groups: (a) Technical Education and Vocational Training (b) Primary and Secondary Education (c) Non-formal Education / Adult Literacy | WB / HMG/N SDC/N / HMG/N WB / Denmark / HMG/N USAID / HMG | UNICEF; UK; SDC/N; WB; UNDP; UNFPA; ADB; Japan / JICA; Denmark; WHO; Australia SDC/N; UNDP; Denmark; ADB; WB AsDB; UNDP; Denmark; WB; UK USAID; UNDP; UK; NGOs (to be specified) |
| 5. | Environment | UNDP / HMG/N | UNDP; Germany; USAID; UK; Japan / JICA; UNFPA; EU; WB; Canada; Denmark; WHO; FAO; SNV; UNICEF; Finland; UNIDO; IUCN; WWF; SDC/N |
| 6. | Industry, Trade / Privatisation Sub-Groups: (a) Tourism (b) Small Business Promotion (including micro-enterprise) | WB / HMG UNDP / HMG/N German Embassy / HMG | WB; IMF; UK; Germany; USAID; UNDP; AsDB; Finland; UNIDO UNDP; EC; ADB; Private sector SDC/N; German Embassy / GTZ; UNDP; others on request |
| 7. | Forestry | Australia / HMG | WB; Australia; UK; SDC/N; Japan / JICA; Germany; Canada; SNV; UNDP; AsDB; USAID; Denmark; EC; FAO; Finland; IUCN; Norway; Sweden; WWF; UNIDO; US Embassy |

¹ Includes administrative reform² Includes judiciary, police, etc³ Includes district/village development

Table 2.2 cont.

| | Sectors / Sub-Sector | Convenors | Donors Expressing Interest in Participating |
|-----|--|---|---|
| 8. | Health and Population Sub-Groups: (a) Women's Health (b) Safe Motherhood (c) HIV / AIDS (d) Health Manpower Training (e) Essential Drugs & Contraceptives (f) IEC / Health (g) MIS / Health (h) Nutrition (I) Water and Sanitation | WHO / UNDP / HMG/N UNFPA / USAID / HMG/N WHO / UNICEF / HMG/N WHO / HMG/N UNFPA / USAID / HMG/N USAID / HMG/N USAID / UNFPA / HMG/N UNFPA / HMG/N FAO / WHO / HMG/N UNICEF / HMG/N | WHO; UNFPA; WB; UK; UNICEF; USAID; UNDP; Germany, Canada; Japan / JICA; US Embassy UNFPA; SDC/N; USAID; FINNIDA; IDA UNICEF; UNFPA; WHO; USAID; UK SDC/N; UNFPA; UNDP; UNICEF; WHO; UNFPA / CST; EU; USAID; Australia; US Embassy UNFPA; UNICEF; WHO; USAID; JICA; UK; IDA UNICEF; UNFPA; WHO; USAID; KfW; SDC/N UNICEF; UNFPA; WHO; USAID UNFPA; USAID; UNICEF; WHO; GTZ; Sweden Save the Children FAO; UNICEF; UNFPA; WHO; WEP; USAID UNICEF; UNDP; WB; Japan / JICA; WHO; Finland |
| 9. | Power Sector Sub-Group: Micro-hydro Energy | WB / AsDB / HMG/N UNDP / HMG/N | WB, UK, Germany; Japan / JICA; ADB; SDC/N, USAID; UNDP; Canada; Finland To be determined |
| 10. | Transport Sub-Groups: (a) Roads (b) Civil Aviation | UK / AsDB / HMG AsDB / HMG/N | SDC/N; UK, Denmark; WB; Germany; ADB; UNDP; Japan / JICA Canada; ADB; others to be determined |
| 11. | WID / Gender and Development Sub-Group: Formal Sector Female Employment and Micro-enterprise | Denmark / UNFPA / HMG/N UNFPA / HMG/N | UNFPA; Denmark; USAID; UNICEF; UNDP; FAO; WFP; WB; SDC/N; SNV-Nepal; WHO, Germany; UK; AsDB; Canada; Japan / JICA; Australia; Finland; US Embassy; GTZ; SDC/N UNFPA; UNICEF; UNDP; USAID; Denmark; UK; ILO |
| 12. | Urban Development Sub-Group: Waste Management in the Kathmandu Valley | Germany / HMG/N Germany / Embassy / HMG/N | Germany; UNDP, Japan / JICA; UNICEF, UNFPA; WB; UK USAID; German Embassy / GTZ; US Embassy; FINNIDA; Japanese Embassy; UNDP |
| 13. | Financial Sector (proposed by GTZ) | Germany / HMG | IMF; WB; AsDB; GTZ; SDC/N; UNDP |

2.4 Sectoral Distribution of Foreign Aid

Because of the key physical constraints to Nepal's economic development, the first four Five-year plans (1956–75) emphasised investment in roads, bridges and tracks, followed by agriculture including irrigation. Foreign aid flows also followed this pattern, with relatively little emphasis on human resource development (HRD) and the social sectors. Moreover, a large chunk of bilateral aid (from countries like China and the USSR) was absorbed by the establishment of import-substituting industries in the public sector such as sugar, cigarettes, cement, leather, textiles, agricultural inputs and bricks and tiles factories and paper mills. Thus, physical infrastructure and buildings/plant constructions have been the major investment areas for foreign aid. Since the Fifth Five year Plan (1975–80) the power and communication sectors have also started receiving increasing assistance. An examination of individual sectors makes it obvious that investment in agriculture and physical infrastructure is not geared specifically towards rural poverty reduction, but is designed to enhance urban-based economic development. Table 2.3 shows the sectoral pattern of total aid disbursement over the period 1975/6–95/6. Table 2.4 shows the sectoral pattern for individual EU bilateral donors.

Table 2.3 Sectoral Distribution of Foreign Aid Disbursement 1975/6 – 1995/6 (%)

| | Subsectors | 1975/6 – 79/80 | 1980/1 –84/85 | 1985/6 – 89/90 | 1990/1 –94/95 | 1995/6 |
|----|---------------------------|-------------------|------------------|-------------------|------------------|--------|
| 1. | Agri-related ⁴ | 19.3 | 30.1 | 27.2 | 30.8 | 23.8 |
| | Agriculture ⁵ | 10.8 | 16.8 | 14.1 | 17.2 | 9.1 |
| . | Irrigation | 8.5 | 13.3 | 13.1 | 13.6 | 14.7 |
| 2. | Infrastructure | 58.7 | 40.2 | 47.5 | 38.7 | 56.4 |
| | Transport | 36.8 | 18.4 | 13.0 | 17.1 | 28.3 |
| | Power | 20.5 | 18.7 | 29.3 | 15.9 | 20.3 |
| | Communication | 1.3 | 3.0 | 5.1 | 5.6 | 7.8 |
| 3. | Industry & Commerce | 7.8 | 10.6 | 7.3 | 11.2 | 0.1 |
| 4. | Social Sector | 13.7 | 18.5 | 17.1 | 18.9 | 18.4 |
| | Education | 2.5 | 4.9 | 4.2 | 6.5 | 9.2 |
| | Health | 4.3 | 4.5 | 3.4 | 2.6 | 1.6 |
| | Drinking Water | 2.9 | 3.1 | 3.1 | 5.9 | 5.0 |

Source: Calculated from *Economic Survey 1996/97*.

⁴ Includes agriculture, forestry, irrigation and others

⁵ Includes forestry and others

Table 2.4 EU Bilateral Donors' Disbursements in Nepal by Sector, 1991-5 (US \$ 000 and% of total)

| Sector | Austria | Denmark | Finland | France | Germany | Italy | Nether- Lands | Norway | UK | Sweden | Switzerla nd | Non- European | European Bilateral | EEC(EU) | Total Bilateral |
|--|----------------|-----------------|-----------------|-----------------|-----------------|----------------|------------------|----------------|-----------------|----------------|-----------------|------------------|-----------------------|----------------|--------------------|
| Economic Management (%) | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 6 0.0 | 0 0.0 | 906 1.0 | 0 0.0 | 0 0.0 | 49,804 9.2 | 912 0.3 | 0 | 50,716 5.4 |
| Development Administration (%) | 2,896 64.4 | 723 1.4 | 174 0.3 | 0 0.0 | 1,887 2.9 | 0 0.0 | 66 0.4 | 82 2.3 | 5,675 6.5 | 0 0.0 | 18 0.0 | 9,959 1.8 | 11,521 2.9 | 818 8.7 | 21,480 2.3 |
| Natural Resources (%) | 0 0.0 | 2,331 4.6 | 6,035 10.7 | 0 0.0 | 9,097 13.9 | 1,244 16.8 | 2,646 14.7 | 1,831 50.8 | 28 0.0 | 0 0.0 | 5,926 9.3 | 21,244 3.9 | 29,138 7.4 | 414 4.4 | 50,382 5.4 |
| Human Resource Development (%) | 259 5.8 | 7,365 14.7 | 1,064 1.9 | 1,098 3.1 | 0 0.0 | 0 0.0 | 0 0.0 | 517 14.3 | 10,128 11.6 | 0 0.0 | 13,424 21.0 | 45,724 8.5 | 33,855 8.6 | 133 1.4 | 79,579 8.5 |
| Agriculture Forestry, Fish (%) | 0 0.0 | 3,016 6.0 | 25,491 45.4 | 0 0.0 | 12,637 19.2 | 1,565 21.1 | 3,278 18.2 | 1 170 32.5 | 422 25.7 | 290 19.5 | 8,287 13.0 | 76,743 14.2 | 78,156 19.9 | 1,615 17.1 | 154,899 16.6 |
| Area Development (%) | 518 11.5 | 8,986 17.9 | 952 1.7 | 18 0.1 | 8,786 13.4 | 0 0.0 | 5,692 31.6 | 5 0.1 | 6,225 7.1 | 0 0.0 | 3,837 6.0 | 16,797 3.1 | 35,019 8.9 | 2,249 23.9 | 51,816 5.6 |
| Industry (%) | 0 0.0 | 3,475 6.9 | 0 0.0 | 0 0.0 | 13,895 21.2 | 0 0.0 | 2,164 12.0 | 0 0.0 | 0 0.0 | 45 3.0 | 54 0.1 | 9,241 1.7 | 19,633 5.0 | 0 0.0 | 28,874 3.1 |
| Energy (%) | 375 8.3 | 0 0.0 | 11,068 19.7 | 13,105 37.1 | 868 1.3 | 0 0.0 | 1,925 10.7 | 0 0.0 | 1,332 1.5 | 0 0.0 | 3,693 5.8 | 25,567 4.7 | 32,366 8.2 | 0 0.0 | 57,933 6.2 |
| Trade (%) | 0 0.0 | 0 0.0 | 162 0.3 | 0 0.0 | 4,213 6.4 | 0 0.0 | 22 0.1 | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 12 0.0 | 4,397 1.1 | 0 0.0 | 4,409 0.5 |
| Transport (%) | 0 0.0 | 0 0.0 | 203 0.4 | 14,169 40.1 | 1,555 2.4 | 0 0.0 | 1,162 6.4 | 0 0.0 | 29,485 33.8 | 612 41.1 | 21,813 34.1 | 118,763 22.0 | 68,999 17.5 | 0 0.0 | 187,762 20.1 |
| Communication (%) | 0 0.0 | 21,209 42.2 | 2,649 4.7 | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 341 0.4 | 0 0.0 | 0 0.0 | 12,850 2.4 | 24,199 6.1 | 0 0.0 | 37,049 4.0 |
| Social Development and Services (%) | 424 9.4 | 721 1.4 | 6,057 10.8 | 85 0.2 | 7,378 11.3 | 0 0.0 | 4 0.0 | 0 0.0 | 6,013 6.9 | 254 17.1 | 1,393 2.2 | 33,585 6.2 | 22,329 5.7 | 0 0.0 | 55,914 6.0 |
| Health (%) | 22 0.5 | 2,169 4.3 | 2,257 4.0 | 1,573 4.4 | 2,310 3.5 | 1,419 19.2 | 857 4.8 | 0 0.0 | 3,445 3.9 | 287 19.3 | 3,475 5.4 | 47,980 8.9 | 17,814 4.5 | 72 0.8 | 65,794 7.0 |
| Disaster Preparedness (%) | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 0 0.0 | 75 0.1 | 0 0.0 | 0 0.0 | 60,697 11.2 | 75 0.0 | 108 1.1 | 60,772 6.5 |
| Humanitarian Aid & Relief (%) | 0 0.0 | 213 0.4 | 0 0.0 | 5,315 15.0 | 2,882 4.4 | 3,174 42.9 | 216 1.2 | 0 0.0 | 1,281 1.5 | 0 0.0 | 2,019 3.1 | 11,094 2.1 | 15,100 3.8 | 4,019 42.6 | 26,194 2.8 |
| Total (%) | 4,494 100.0 | 50,208 100.0 | 56,112 100.0 | 35,363 100.0 | 65,508 100.0 | 7,402 100.0 | 18,038 100.0 | 3,605 100.0 | 87,356 100.0 | 1,488 100.0 | 63,939 100.0 | 540,060 100.0 | 393,513 100.0 | 9,428 100.0 | 933,573 100.0 |

Source: Calculated from UNDP / Nepal Development Cooperation Reports 1991-1995

Note: Non-European bilateral donors include Japan, USA, Australia, Canada and Republic of Korea, but exclude India, China and the USSR / Russia.

Agriculture (including forestry)

The agriculture sector shows a long-term increasing trend in its share from below 11% during 1975/80 to above 17% during 1990/5. But in 1995/6 its share fell below 10% again. In particular, the share of agriculture in total foreign loans disbursed has significantly increased over the years. But the almost stagnant productivity in agriculture (especially cereal crops) raises questions about the nature of this assistance. Only the cash crop sector seems to have shown some improvement, and a substantial amount is invested in items like fertiliser subsidy, agricultural extension and research, whose benefits of which flow largely to the relatively larger farmers, particularly those involved in non-cereal farming. The small/marginal farmers have received little benefit from such heavy disbursement of foreign aid. On the contrary, the country has turned from a food exporter to a net importer of food with consistent rises in aggregate food shortages since the 1980s (met by larger imports and increasing food aid in successive years). The domestic prices of food products have also experienced double digit inflation since the 1980s. In a country where the overwhelming majority of the population depend on food production as their main occupation and source of income and spend almost 70% of their household budget on food (mostly cereals), this trend demonstrates that increasing foreign assistance (especially loans) to this sector has done little to reduce poverty in the country.

Irrigation

The irrigation sector increased its share from below 9% to about 14% between 1975 and 1995. It absorbs a significant proportion of foreign loans (about one-fifth recently). Large investments in big irrigation schemes have mainly served the large farmers. However, only the small / medium irrigation schemes managed by the farmers themselves have been found to be cost-effective as well as distributionally more equitable.

In the hills, irrigation (such as lift irrigation) is a very costly affair. According to the Agricultural Perspective Plan the only sustainable solution is to make the hills and mountain rangelands specialise in non-cereal activities, such as horticulture, floriculture, citrus and other fruits; tea / coffee, ginger, cardamom and similar exportable cash crops; forestry, herbs and other high value products; tourism and livestock. But this requires an adequate food supply system for the population in the hills/mountains as well as marketing arrangements (including transport links) for their specialised products. Furthermore, processing schemes could also be established to get the maximum value added to the high value products in the hilly regions. But foreign aid as well as the government's own investment policies and plans have so far failed to adopt such a holistic and regionally appropriate approach and to optimise the exploitation of Nepal's diverse ecological comparative advantages.

Foreign-aided projects in agriculture and irrigation are criticised for being high-profile projects of an ad hoc and discrete nature, located in or near urban centres and accessible areas, thereby largely benefiting the urban specialists, large farmers and contractors. The involvement of small / marginal farmers and particularly women is very limited in most of these projects, despite the recent concern about poverty reduction and gender issues in all aid projects. Some projects, however, have shown appreciable community-level involvement, such as the Hill Community Forest Projects supported by various bilateral and multilateral donors. But such examples are few.

Transport Sector

The transport sector has consumed the largest share of aid of all sectors. In the 1980s its share in total aid declined dramatically from about 37% to little more than a third of that (13%). It has recently recovered its share to reach more than one-quarter of total aid. In the initial stages of Nepal's development, it was fashionable among the major bilateral donors to be involved in the construction of one or other highway, partly for strategic reasons. For example, India assisted in the construction of the Tribhuvan Rajpath Highway (116 km), the Sunauli-Pokhara road (200 km), parts of the Mahendra Highway, the Koshi Area Road (42 km), Tribhuvan International Airport and

a number of other roads and airports. Similarly, China helped to build the Kathmandu-Kodari Road (104 km) linking Kathmandu with Tibet, and many other roads. The UK, the US and Switzerland also devoted significant amounts of their aid to road projects.

The impact of all these foreign-assisted projects has been large in terms of establishing linkages between various parts of the country, increasing mobility and the flow of goods and services, and creating the greatest non-farm employment in roads construction and the maintenance and transport sectors. It has also helped other sectors such as tourism and industry and the commercialisation of agriculture in various parts. The expansion of roads from about 600 km in 1956 to more than 10,000 km by 1996 is the result of heavy emphasis on this sector in aid disbursement. Similarly, the establishment of 44 airfields along with the international airport has not only linked Nepal to the outside world but also linked its various inaccessible areas at least with the capital city.

However, most places in the hills / mountains and many villages in the Terai are still difficult of access, especially during the rainy season. Most places in the hills / mountains take several days of walking or riding on mules to reach and lack dependable bridges. Many villages in the Terai, too, become inaccessible in the rainy season because of the poor road conditions and lack of safe bridges. Many people still cross India (using its railway system) to move from one part of Nepal to another, especially in the western regions.⁶

But even the existing road network is not all that beneficial. The construction of roads through the West Central Region to link various administrative centres (instead of linking markets with surplus-producing areas) has made hardly any impact on the production base of the areas opened up. On the other hand, by facilitating the infusion of relatively cheaper imported mass produced goods into the rural areas, the provision of roads imposed a severe setback to certain indigenous small-scale industries and artisanal works, such as shoe-making, tailoring, and the production of metal and earthenware utensils which provided a livelihood for some of the most underprivileged and poorest households. In any case, the road network established with substantial foreign aid is not so far based on rational planning or on social cost-benefit analysis, but on the political-administrative decisions of the rulers or the strategic interests of the donors.

As the Agricultural Perspective Plan notes, road investment in the past has been directed almost entirely at trunk and district roads, with negligible investment in the grid of connecting feeder roads essential to agricultural growth and also to the optimum volume of traffic on the trunk roads for their financial profitability. Another problem with the heavy investment of aid in roads is the lack of their maintenance so far. More than half of the roads constructed are in an abysmal state because of the inadequate budget for regular maintenance. Moreover, it is estimated that less than one-third of the new road construction translates into wages for labour, whereas three-quarters of the investment in regular / periodic maintenance would go to labour. Donors therefore need to start emphasising the maintenance of roads along with the construction of new ones. Often only the foreign-exchange component of the cost is met by the donors, which tilts project design towards maximising the foreign-exchange and capital element.

Power Sector

The share of the power sector has ranged from about 16% (in the early 1990s) to more than 29% (in the latter half of the 1980s). Considering the huge hydroelectric potential of Nepal (83,000 MW, of which about half is estimated as economically feasible), and the fact that less than 0.5% of the economically feasible potential has been exploited so far, such an emphasis on this sector seems quite justified. The problem is that almost all the benefit of this investment is enjoyed by the urban population (about 12% of the total population). But even the urban dwellers and industries/businesses still suffer from frequent power cuts and load-shedding despite the tripling of the electricity tariffs during the six years since 1992. As a result urban dwellers invest substantial

⁶ The road density in Nepal is still about 5 km per 100 km² (13.5 km in the Terai and only 4 km in the hills) which is one of the lowest in the world and about one-eighth that of India.

amounts in alternative (and imported) energy sources such as kerosene, LPG, coal and candles, while industries suffer from wastage and loss of competitiveness due to the increased costs of production.

Nepal's hydroelectric power projects attract interest and pressure even from outside the country. The issue of selling electricity to neighbouring countries, mainly India, is a persistent one, which is claimed to have been resolved after the Mahakali Treaty with India. But many questions remain unanswered and a lot of uncertainty still exists. The Arun III project is an example of the waste of time, money and energy in energy sector development in which government and donors are equally involved. US\$8 million were involved in studying, designing, redesigning and evaluating the Arun project, with a series of negotiations and dialogue among a number of donors (World Bank, ADB, Japan, Germany, France, Finland and Sweden) and changing governments in Nepal. But the project was surrounded by so much controversy about costs, financial viability, etc. on the part of political parties, NGOs, environmentalists, scholars, experts, and policy-makers, that ultimately it was aborted.

In light of the large number of potential hydroelectric projects with a number of beneficial features, many experts do not consider the investments so far in the power sector optimal. Many believe that rural electrification should be emphasised for agricultural growth and poverty reduction. But so far only the urban (and a few suburban) areas have been covered, while rural electrification has been more or less ignored. This is also partly due to the attraction for the government as well as the donors of big, capital-intensive, prestige projects.

Communications

The communications sector has consistently increased its share of development aid, both in loans and grants, over the years (from 1.3% during 1975–80 to 7.8% in 1995/6). As a result, telephone lines which were only available for a few hundred families in the capital now exceed 100,000 in 47 towns of the country. Telecommunications in Nepal are at present equipped with the latest technology and are considered among the best in South Asia. Radio Nepal reaches all corners of the country, while Nepal Television covers almost 40% of the population. For a topographically difficult country like Nepal, the importance of an efficient communications network can hardly be over-emphasised. Hence several major donors have provided assistance to this sector.

2.5 Trends in Foreign Aid for the Social Sector

The social sectors (education, health, water supply) lag far behind infrastructure and agriculture in foreign aid support, although their share has improved slightly from about 14% during 1975–80 to about 19% during 1990–95 (see Table 2.3). Despite the official policy of mobilising grants for the social sectors, they have to rely increasingly on loans, while grants have been absorbed overwhelmingly by infrastructure (three-quarters in 1995/6). The relative neglect of the social sectors in foreign aid allocation parallels the slow improvement in social and human indicators for Nepal as compared with other developing countries. The government's own budgetary allocations also follow the pattern of foreign aid allocations.

The trend in growth rates (in nominal terms) of foreign aid disbursement by sector for the period 1981–96 is shown in Table 2.5. The growth rate of aid to the economic sectors has increased tremendously following structural adjustment in the early 1980s. However, industry and commerce, which showed phenomenal growth during 1985–92, receives less after liberalisation moves since 1992. The transport, power and communications sector received more aid during the latter half of the 1980s, with a brief pause during the transition period (1990–92), followed by even higher growth after liberalisation. The growth rate in aid to agriculture (including irrigation, forestry, etc.) has suffered a setback post-adjustment except during the transitional period. Similarly, the social sector as a whole has also suffered reduced growth (except during 1990–92). Especially in the post-liberalisation period the growth rate has turned negative even in nominal terms. If inflation is taken into consideration, the aid disbursement to the social sector (in real terms) appears to show a double-digit decline in the post-liberalisation period, mainly because of sharp decline in aid flow to the drinking water and health sectors. The education sector suffered a sharp decline in the immediate adjustment period but recovered in the 1990s. The health sector disbursements have been falling since adjustment (except during 1990–92), while drinking water disbursements started to fall in the post-liberalisation period.

Even within the social sector not all aid is directed towards high human priority areas, as mentioned above. A significant proportion is absorbed by higher education, urban-based curative facilities and technical assistance, taken up mainly by salaries and the benefits of expatriate and domestic experts.

Table 2.5 Average Annual Growth Rates of Foreign Aid Disbursement by Sectors (1981–96)

| | Sector | Pre-Adjustment 1980–85 | Adjustment 1985–90 | Transitional 1990–92 | Post- Liberalisation 1992–96 |
|----|-------------------------------------|---------------------------|-----------------------|-------------------------|------------------------------------|
| 1. | Economic Sectors | 12.3 | 13.6 | 26.5 | 20.4 |
| a) | Agric., Irrig., Forest | 34.4 | 3.5 | 55.3 | 20.8 |
| b) | Transport, Power, Communications | -0.8 | 19.3 | -3.5 | 26.9 |
| c) | Industry & Commerce | 28.8 | 24.2 | 56.3 | -71.6 |
| 2. | Social Sectors | 31.3 | 28.5 | 78.4 | -0.4 |
| a) | Education | 26.5 | -1.3 | 67.8 | 22.7 |
| b) | Health | 24.3 | -5.5 | 72.7 | -4.3 |
| c) | Drinking Water | 12.3 | 13.9 | 25.0 | -15.9 |
| 3. | Other Expenditure | 2.5 | 48.2 | -93.5 | 255.0 |
| 4. | Total Expenditure | 14.4 | 16.7 | 31.1 | 15.6 |

Source: *Economic Survey 1996/7*

Note: Growth rates are geometrical averages calculated from undeflated figures in Nepalese rupees.

In view of the extremely low human progress indicators of Nepal and the donors' aim to give pro-poor aid, how much do the donors emphasise the social sectors and high human priority areas in their assistance to Nepal?

Education

The education sector used to take a very small share in the past (only 2.5% during 1975–80), but had increased its share (in both loans and grants) to 9% in 1995 (see Table 2.3). Major bilateral donors have helped in establishing various institutions and have provided training and scholarships both in Nepal and abroad.

The *United States* has assisted in the training of teachers, technical education and the utilisation of educational inputs, such as the Janak Educational Material Centre, the Institute of Education and the Institute of Agriculture and Animal Science, radio education, etc. Almost 5,000 Nepalese have received training abroad from various US funds (one-third in the US). The focus of the US on the social sector is relatively high (25%), next only to agriculture (28%) and exceeding even transport and communications (16%). The *United Kingdom*, like India, has allocated only about 5% of its aid to the social sectors as against 60% for transport and communications. British aid has been used in the Nepal Administrative Staff College, the Agricultural Training School and the training of several hundred Nepalese in the UK and other countries. *Switzerland, the USSR, Germany and other bilateral donors* have helped Nepal in various training and education programmes. China has also provided a couple of hundred scholarships to Nepalese trainees.

However, basic primary education, girls' education, adult literacy, vocational training, quality improvement of primary and secondary education etc. have received relatively little attention from the major donors. Fortunately, multilateral donors such as UNICEF, the ADB, UNDP, and now the World Bank, the EU and some bilateral donors (such as Denmark, Japan, Norway and Finland) are showing interest in co-ordinating assistance for the Basic and Primary Education Sector Programme.

Health

Health seems to be even more neglected than education, in light of the fact that its share has declined from 4.3% in 1975–80 to only 1.6% in 1995 despite a spurt in 1990–92. The *United Kingdom, the US and Japan* have assisted public health programmes such as malaria eradication, family planning and Mother and Child Health (MoH). However, basic and preventative health care, which is particularly relevant to the poor, has been a priority only for multilateral donors like UNICEF and WHO, and their resources are not very large. The drinking water sector has increased its share of aid receipts from the very low level of 2.9% during 1975–80 to 5.9% during 1990–95.

Overall Assessment

Obviously, some donors have to do some restructuring to achieve this. The 20/20 compact of the 1996 Social Summit in Copenhagen set the goal for both donor and partner to achieve 20% of their budget expenditure on *basic* education health, and other related categories of social expenditure. In view of the fact that the education, health and drinking water sectors combined had received only 18% of the total aid disbursed by 1995–96, and not all their projects / programmes belong to the 'basic' high priority categories. Certain individual European donors have more to do than others according to the figures in Table 2.4. If the UNDP / UNICEF criteria for identifying high human priority concerns are followed⁷, then less than 12% of total aid to Nepal is found to be directed towards these sectors (based on actual disbursements rather than commitments). It is also a matter of concern that donors are more interested in the construction and establishment of institutions, leaving the operational/recurrent expenditures to the government. As a consequence, schools are established but suffer from an inadequate supply of trained (in particular, female) teachers, text books and other supplies as well as necessary facilities (like blackboards, libraries, laboratories and

⁷ A 1994 study commissioned by UNICEF/National Planning Commission entitled 'Budget Restructuring to Achieve Human Development Goals in Nepal' suggests the following guidelines: (i) providing services to the maximum number of people at relatively low cost, (ii) contributing to the quality of life of children, women and population deprived of basic services, (iii) contributing to growth with equity and social justice on a sustainable basis, and (iv) broadening the base and opportunities for wider services at the grassroots level.

even separate toilets for girls). Health posts and district hospitals suffer from lack of medical personnel and medicines. The outreach of health facilities to rural families is extremely weak. Water supply systems are established but after some time only air comes out of the taps and the quality of the water is highly questionable. Serious compromises are being made in the quality of basic social services, because donors as well as the government seem to be preoccupied with the target of expanding coverage. Overall the social sectors, especially primary and basic education, health and drinking water, have thus far received little attention from European donors. Apart from humanitarian relief and some area development, the rest of European assistance has at best contributed only indirectly to poverty reduction. Most of the benefits from aid for physical infrastructure and economic services in Nepal seem to have gone to urban dwellers, in particular people with assets.

Table 2.6 Multilateral, Bilateral and International NGO Disbursements 1995 by Agency, Country and Sector

| Disbursements by Donor | US \$ m. | % | Disbursements by Sector | US \$ m. | % |
|------------------------|----------|-------|--------------------------------|----------|-------|
| Total Multilateral | 195.0 | 100.0 | Transport | 69.4 | 16.1 |
| WB / IDA | 81.6 | 41.9 | Agriculture/Forestry/Fisheries | 55.1 | 12.8 |
| ADB | 69.8 | 35.8 | HRD | 39.4 | 9.2 |
| UN | 31.1 | 16.0 | Humanitarian Aid & Relief | 36.7 | 8.5 |
| EU | 2.8 | 1.4 | Natural Resources | 34.4 | 8.0 |
| Others | 9.7 | 4.9 | Energy | 30.0 | 7.0 |
| Total Bilateral | 218.0 | 100.0 | Communication | 29.4 | 6.8 |
| Japan | 91.8 | 42.1 | Health | 27.1 | 6.3 |
| UK | 27.0 | 12.4 | Area Development | 24.1 | 5.6 |
| USA | 22.1 | 10.1 | Economic Management | 21.2 | 4.9 |
| Denmark | 21.3 | 9.8 | others | 63.9 | 14.8 |
| Germany | 14.5 | 6.6 | | | |
| Switzerland | 13.8 | 6.3 | | | |
| Netherlands | 6.4 | 3.9 | | | |
| Finland | 5.5 | 2.5 | | | |
| Australia | 5.4 | 2.4 | | | |
| Canada | 4.5 | 2.1 | | | |
| other | 5.7 | 2.7 | | | |
| Total INGOs | 17.7 | 100.0 | | | |
| Plan Intern. | 4.1 | 23.1 | | | |
| UMN | 3.2 | 18.1 | | | |
| CARE | 2.3 | 13.0 | | | |
| Save the Children | 1.1 | 6.2 | | | |
| Others | 7.0 | 39.6 | | | |
| Overall Total | 430.7 | | Overall Total | 430.7 | 100.0 |

Source: UNDP

3. European Donors' Approaches to Poverty Reduction (PR) – Country Policies and Project Portfolios

This chapter discusses the aid policies towards Nepal of major European donors and their current project portfolios from the perspective of poverty reduction. Relevant policy papers such as country programmes and strategies or country programme evaluations have been consulted in order to better understand European donors' approaches to poverty reduction in Nepal. Selected donors such as the European Commission, the UK, Germany, Denmark, the Netherlands, and Finland were asked to mark their project portfolios⁸ based upon the following classification:

1. *Direct PR projects / programmes (code I)* Interventions which address PR directly and seek to target the majority of their benefits to the poor / poor groups.
2. *Indirect PR projects / programmes (code II)* Interventions with a plausible link between the activity and PR (explicit or implicit), which can be expected to bring substantial benefits to the poor (though others may also benefit).
3. *Sector / policy reform interventions (code III)* Measures designed to promote pro-poor policy reform or increase institutional capacity to benefit poor groups.
4. *Other projects / programmes (code IV)* Interventions which may bring benefits to the poor, but the linkages between intervention and PR are less clear or likely to occur only in the long run.

The material in this chapter is based partly on documents and partly on interviews conducted with European donor representatives in Kathmandu. The interviewees were either heads of missions or other officers responsible for the aid programmes. In addition, interviews were conducted with representatives of the World Bank, the Asian Development Bank, the European Community, UNDP, JICA (Japan) and some of the most influential INGOs (such as the United Mission to Nepal, CARE, Helvetas, the Lutheran World Service) as well as the Europe desk of the Nepalese Ministry of Finance. These interviews were semi-structured. A standard questionnaire was used but discussions were open-ended. The questions related to: a) the character of the donor country programme in Nepal, comparisons with elsewhere and views on HMG/N policies; b) views on the poor and poverty in Nepal and judgements on the PR strategies of HMG/N and the role of donors (multi/bi/INGO); c) the donor's own strategy on PR in Nepal; priority for PR including targeted regions and groups, results, successes and failures in programme aid / policy support / rural development / basic social services / income generation; d) images (ranking) of other donors on PR and views on donor co-ordination.

3.1 EU

The European Commission, which has a relatively small aid programme in Nepal, has not yet developed a country strategy tailored to the specific demands and needs of Nepal. The lack of a country strategy paper and of proper local representation certainly impedes policy dialogue and project monitoring.

The Nepal portfolio of the European Union is relatively lean and addresses only a limited number of sectors. Projects are either classified as 'indirect PR' (62.9% of the total financial volume) or 'sector / policy reform interventions' (27.1%). The EU is a latecomer among the international donors to Nepal. Its projects focus very much upon natural resources, the agricultural sector and area development. Targeting poverty groups within the projects seems to be weak. The Commission lacks an effective monitoring mechanism for its own projects.

⁸ The project lists of the European donors examined are given in Annex 1–6.

3.2 UK

The United Kingdom's latest country and programme statement on Nepal describes the current aid programme and outlines the future strategy. The current aid objectives involve: (i) reducing poverty by focusing a proportion of the programme directly on the absolutely poor and vulnerable and providing support for human resource development and broad-based economic growth; (ii) supporting good government including reforms which provide a greater role for the private sector; (iii) enhancing the status of women; and (iv) protecting the environment.

The UK is supporting *environmental sustainability* in sectors of the economy of particular importance to poorer communities. Its agricultural research programmes at Pakhribas and Lumle contribute to the improvement of the range of technologies available to subsistence and other farmers in the hills. An assessment of the impact of this research on subsistence farmers has provided encouraging evidence of take-up. The two programmes will ultimately be taken over by the Nepal Agricultural Research Council (NARC).

The UK's *forestry projects* are addressing the needs of poor people by supporting community management of forest resources, and refocusing HMG/N research effort on user needs. The projects have been successful in establishing and supporting forest user groups under the Community Forestry project, which has benefited from strong government commitment, including the enactment of legislation to facilitate the transfer of forest land to user groups. Progress with forestry research (FRP) has been slower than planned.

The long-standing support to the *roads sector* continues to help relieve critical constraints on economic growth. The Maintenance and Rehabilitation Co-ordination (MRCU) and Road Maintenance (RMP) projects are raising the capacity of the Roads Department to maintain the strategic network. Progress has been made with the Department in contributing to the skills needed for effective maintenance planning. Donor co-ordination and government commitment have been good, but there is some way to go before local capacity will be adequate to maintain the strategic network.

The UK Department for International Development (DFID) addresses *community and health needs* through projects in the water sector. Schemes to improve clean water supply in three Terai towns and Dhankuta were successfully concluded in 1994. A second phase of the GWT (Gurkha Welfare Trust) rural water supply project has been implemented, building on successful experience gained under the first phase. The UK is pursuing projects in the *health and education sectors* to help improve Nepal's poor social indicators. Since 1993 DFID has been working to strengthen the Primary Health Care system in seven selected districts in the Eastern region. This region's primary health project has been effective in strengthening district health services, but formidable institutional weaknesses in the health sector currently preclude wider support for reform. A new intervention in support of safer motherhood is being developed. In the water sector effective mechanisms have been established for strengthening community participation in the Terai towns and through the Gurkha Welfare Trust.

DFID is promoting good government in three ways. First, it is advising the Nepal Administrative Staff College (NASC) on how to improve its management training for the civil service. Second, it has carried out a Financial Management Project to tackle weaknesses in the country's public finances. Third, it advises on training and the introduction of modern policing methods. These projects are making steady progress. However, the long-term goal of helping the government enhance the competence of the civil service depends critically on maintaining commitment to wider civil service reform. DFID is looking for ways of making the NASC more responsive to the training needs of line Ministries.

Two general factors have tended to limit the effectiveness of DFID projects in varying degrees. Weaknesses within and between line Ministries can lead to problems in the implementation of policy, thus reducing the impact of projects. A further problem has been sustainability, particularly where DFID has been involved in the direct employment of local staff. DFID now aims to phase out

direct local employment in favour of the secondment of government staff and hiring local staff through consultants.

The current project portfolio as classified by DFID is engaged 76% in direct poverty-reducing interventions and 19% in indirect poverty-reducing efforts. Sector policy reform support constitutes 35% and other project and programme activities which cannot be related directly or indirectly to poverty reduction account for 40% of the total volume. In the past UK's portfolio had quite a bias towards physical infrastructure and support for state-run service delivery institutions (e.g. agricultural research stations). In recent years more emphasis has been put on community-based programmes and capacity-building and the overall portfolio has become more poverty conscious. Systematic poverty impact monitoring is lacking. See Table 3.1 below for the PR classification of the UK portfolio judged on this investigation.

3.3 Germany

The Federal Ministry for Economic Co-operation and Development (BMZ) has elaborated a country strategy paper on Nepal which serves as a planning and management tool in shaping Germany's bilateral assistance programme. This is an internal policy paper. It analyses the core development problems and potential of the country, assesses the past achievements of bilateral co-operation and delineates the future assistance programme. In outlining future co-operation, it evaluates the partner's development policy and thinking.

From a German point of view, given the initial conditions facing Nepal, its prime goal of broadly effective poverty alleviation can be achieved only by a process of structural change, favouring ecologically and socially compatible but market-oriented production in the non-agricultural sectors. The process of structural change through reform policies will take several decades. The success of this strategy is closely bound up with an effective limitation of population growth and environmental degradation. The Nepalese government has no clear notions of its own on a strategic formulation of its co-operation with Germany.

The BMZ sees little scope for altering the current priorities in co-operation with Nepal. The main constraint is a lack of implementation capacities on the part of the partner. In the crucial sectors these limits have already been reached by the current projects of bilateral and multilateral donors. To change priorities requires an (albeit protracted) enhancement of implementation capacities by the promoting organisations responsible for development co-operation. In view of this situation, the following priorities are suggested by the BMZ:

Health/family planning. With population pressure, highly unfavourable health indicators, and insufficient access to health services, the Nepalese government is according high priority to improving basic health care and reducing the birth rate. Hence a programme projected for 15–20 years is set to create up to 4,000 new 'sub-health posts' staffed with trained personnel, with an eye to providing qualitatively more effective basic health services, including family planning, down to and including the village level.

The country will need substantial increases in financial assistance to ensure the sustainability of these services. This faces the Health Ministry with a complex task of planning and management. German technical co-operation (TC) includes, in addition to institutional advisory services for the Health Ministry and training for health-care personnel, support for the development of a decentralised organisational structure with a focus on the involvement of the local people, NGOs, and the private sector. Up to now German development co-operation activities have concentrated mainly on providing support for state services; they will now step up assistance for complementary support of NGOs and the private sector.

Rural development, urban development, the environment, and resource protection. German TC, already long active in rural development, will concentrate more on this sector. The support provided should focus on strengthening and diversifying the processing sector and introducing sustainable methods of agricultural utilisation with an eye to bringing about, in the longer term, a shift of

employment away from the agricultural sector and towards other sectors as well as to protecting natural resources. This includes an adequate development of the transportation infrastructure and support for rural-urban linkages. Promotion of the projects in community-supported forestry management through local user groups should be continued and expanded to include ‘watershed management’ measures. The new municipal constitution of 1992 has given the municipalities autonomous status, but their financial resources are, as a rule, insufficient to provide the population with adequate social and economic institutional infrastructure. Municipal borrowing is funded basically by the Town Development Fund (TDF), which is supported. Promotion of urban infrastructure will continue to be a priority of German financial co-operation, flanked by complementary TC measures closely co-ordinated with local NGOs and self-help organisations and aimed at further supporting the decentralisation process. German TC has long been active in this priority area, having had a major share in the substantive development achieved in recent years.

Business promotion/small and medium-sized industry / financial sector. In view of the country’s high rates of population growth and the limited employment opportunities offered by agriculture, the Nepalese government sees promotion of this sector as one of the most important pillars of the country’s social development. Its development potential currently faces constraints at several levels: insufficient provision of physical infrastructure, the inadequate role of the state in developing an institutional and economic policy framework, and a failure to harness entrepreneurial potential properly. Problems are to be found in the lack of capacity on the part of the existing government financial system to provide sufficient credit. Existing German TC support for new business starts on the basis of the CEFE (Competency Based Economics Through Formation of Entrepreneurs) approach as well as strengthening the Entrepreneurship Development Centres within the framework of the ‘Small Business Promotion Project’.

The energy sector. The goal of support for the energy sector is an economically feasible promotion of regenerative sources of energy and a reduction of network losses as a contribution toward eliminating the glaring and growing bottlenecks in the country’s energy supply, which constitute an impediment to economic development. This would also contribute to environmental protection. The target group is primarily the productive sector, which is to be provided with sufficient electricity at cost-covering prices. Rural households, which as a rule have no access to electricity, are to be supplied with energy via the promotion of biogas plants.

Germany’s portfolio (see Table 3.1) shows an emphasis on direct and indirect poverty-reducing interventions – 11% and 24% respectively. This is mainly owing to its sectoral focus on area development, small farmer credit, small and micro-enterprise development, and investment in the social sector. On the other hand, Germany has always put quite an emphasis on the industry sector (see Table 2.4). Recently sector policy reform efforts have gained more weight in the German portfolio (see Table 3.1).

3.4 Denmark

The Danes started to assist Nepal only in the mid-1980s. Since then Danish assistance has amounted to a total of about Danish krona 744 million (US\$ 109 million). At present the annual allocation is DK100 m. (US\$ 14.7m).

DANIDA’s support for Nepal is spread over six areas. A 1995 evaluation (DANIDA, 1995a, 1995c) of this perceived four of these areas as highly relevant to poverty reduction in Nepal: community forestry, dairy development, basic and primary education and small-scale community development activities supported through quickly disbursed Embassy grants to local NGOs. Almost half of the portfolio can be classified as interventions which may bring benefits to the poor but where linkages are less clear or will only occur in the long run. The programme is strong on reform of one of the core sectors for social development with a clear link to poverty reduction: primary education, together with good governance, gets significant support. An independent classification suggests that about 17% of the total aid is allocated for direct or indirect poverty-reducing interventions.

A country strategy paper prepared in 1993 identifies poverty alleviation, economic development and democratisation as programme objectives. The paper has not yet had significant operational impact on the DANIDA programme, which has gradually evolved out of experience of development co-operation with Nepal over the last two decades based on tied loans and grants. The evaluators found that the poverty alleviation objective was not clearly reflected in the development objectives of individual interventions. The causal linkages with poverty reduction were not specified in any of the project documents. This caused uncertainty with respect to how the poverty alleviation effects were working. Monitoring of impact including qualitative aspects was very weak at the programme level.

Available information, however, indicated that the dairy development activities and support for local NGO activities in particular had had a positive impact on poverty alleviation, prioritising subsistence and dry-land small farmers with access to markets for milk, while some NGO activities had helped the poor living in exploitative conditions. The government's Community Forestry Training Programme was seen to have potential for poverty reduction, but the effect had so far been limited. The more recent support for basic and primary education and tree improvement was also likely to benefit the poor in the long run.

Support for the Local Authorities Project had been designed to fulfil democratisation and human rights objectives. However the relationship between democratisation and poverty alleviation had not been directly addressed in the project design and implementation. At the time of the evaluation, the project was only 18 months old and achievements had so far been modest; since then, it has been redesigned to remedy some of the problems.

The impact of the Danish-funded Telecommunications Project on poverty reduction was expected to materialise from the general effects of economic growth. Danish support has mainly satisfied an existing demand for telephone lines in urban areas but the economic growth effects were regarded as uncertain by the evaluators. The impact on poverty from the expanded telephone system was unknown but was expected to be limited.

For all intervention areas except some of the NGO work, activities had not been *directly* targeted at the population living in absolute poverty. The mechanisms by which poor people could potentially benefit from increased productive and economic activities or from improved institutions were not well documented.

The independent evaluation (Danida, 1995c, 1996) identified two ways of reinforcing the poverty alleviation objective in the Danish country programme: to strengthen the focus on poverty reduction within the present interventions, and to reallocate resources from interventions with limited PR potential to other sectors with a possibly higher direct impact. The evaluators found it difficult, however, to point to one sector having more impact than the others at the general level.

Strengthening the direct poverty focus within the existing interventions was found relevant primarily within community forestry and dairy development. Within the basic and primary education project, the conditions for poverty reduction need to further developed. In the government's Community Forestry Project, the functioning of the user groups, the distribution of benefits, and the status of those who had been negatively affected, need to be addressed. If carefully designed, this would not conflict with DANIDA's environmental objective, especially in the long run. At the same time it would improve the situation for women. Within dairy development, support for fodder development, and for livestock management for smallholders, and alternative processing and marketing opportunities at village level, would strengthen the direct poverty focus. This would clearly be at the cost of supplies of Danish dairy equipment. Again, support for fodder development coupled with access to water, would contribute to the gender objective.

The evaluators' second possibility was for a reallocation of resources away from urban telecommunications projects towards, for example, sustainable smallholder agricultural production including extension and input support, provision of rural infrastructure including water, health, and

non-farm-income generating activities, and targeted credit programmes for communities and groups of poor people.

The evaluation report also suggested that resources could be allocated away from the local government project, though this would be at the cost of the human rights and democracy objective. This view is open to question since any genuine decentralisation of power and resources (from Kathmandu to the districts, or from district centres to the communities, user groups and village development committees) can assist pro-poor policy change in the Nepalese context. However, to maximise its poverty-reducing impact the DANIDA-supported local government project should be 'decentralised' from the Kathmandu-based Local Development Training Academy to the district and village committees.

3.5 The Netherlands

The Dutch Ministry of Foreign Affairs is represented in Nepal through the SNV (Stichting Nederlandse Vriwilligers or Organisation of Netherlands Volunteers) which was set up in 1965 with basically the same mandate as the Peace Corps in the United States. The SNV-Nepal's director has also been acting as the Netherlands Consul in Nepal, and his office has also prepared and administered the Small Embassy Projects Programme financed through the Netherlands Embassy in New Delhi.

The Policy and Operations Evaluation Department of the Dutch Ministry of Foreign Affairs has recently evaluated the SNV's country programme in Nepal. The information in this section is largely based on that evaluation report (Netherlands Policy and Operations Evaluation Department, 1998).

The Dutch programme in Nepal is intended to help in alleviating poverty by carrying out a number of activities in a few very remote and poor areas, and by paying particular attention to women. The programme consists mainly of personnel inputs and projects. Personnel are placed either in Nepalese government or in private aid organisations. Projects are of two main types, namely: projects that are carried out together with other organisations and projects that are implemented and managed by the SNV.

The poverty orientation of the SNV's programme shows up in the extremely high share of direct poverty-reducing aid (70.8% of its total financial aid) followed by 15% of indirect PR aid. Sectoral and policy reform interventions play only a minor role. In 1996 the SNV asked the International Centre for Integrated Mountain Development (ICIMOD) to assess the development status of all 75 districts of Nepal in order to review and re-assess the choice of priority districts for future collaboration (ICIMOD, 1997).

In the period 1985–95, the SNV devoted a total of 347 *man-years* to field activities in Nepal. Total disbursements amounted to Dfl 57.8 million (US\$31 m.) over the 10-year period. The number of SNV workers in Nepal decreased considerably during the same period: from 41 in 1985 to 17 in 1995. On the other hand, more Nepalese experts gradually became involved in the projects and in the main office in Kathmandu.

By far the greatest number of personnel have been involved in two government programmes oriented towards drinking water and sanitary facilities in rural areas and to making credit available to rural women. The biggest SNV projects – funded by the Dutch Ministry of Foreign Affairs – have been two integrated rural development projects, and three sectoral projects, namely, the Trail Bridge Building Programme in the Mid-Western region, the Bee-keeping Training and Extension Support in the Central region and the nation-wide Biogas Support Programme. The last intervention was used as a case study for this research project.

According to the 1998 evaluation (Netherlands Policy and Operations Evaluation Department, 1998: xvii–xxi and 189–201) SNV-Nepal has throughout the period 1985–95 followed well all the policies of the Dutch and Nepalese Governments towards poverty alleviation including attention to the position and specific interests of women, and the ecological impact of its interventions. A little more than one-third of all SNV aid disbursements have been devoted to the very remote and poor

districts of Nepal (Far-Western and Mid-Western) where the SNV has usually been the only donor organisation present.

In focusing on improvement of the socio-economic position of the poor and enhancing the accessibility of remote areas, SNV-Nepal's policies have coincided with major policy objectives of the Nepalese government. However, the poor have **not** been clearly defined, but are considered to be rural populations in remote areas and the hills, landless or marginal farmers, and women in particular.

The majority of personnel inputs were considered to have contributed to poverty alleviation in general and to a better life for poor women in particular. Good results were achieved in the number of drinking water supply constructions. Support for a productive credit programme helped to establish about 2,000 credit groups, covering about 10,000 women who had no individual collateral. The repayment rate was high (about 85%), and most of the credit was used for productive purposes. Although the sectoral projects (bridge building and biogas programmes) did not focus primarily on the poor, they did improve the living conditions of rural people and of women in particular, many of whom can be considered poor. The bridge building programme was implemented in the Mid-Western region, one of the most remote and poorest regions of Nepal. The nation-wide biogas programme did not reach the **very poor** but it was decided to construct smaller biogas plants that would also serve the smaller farmers.

The objectives of the Dutch-funded integrated rural development projects have been to strengthen local government agencies in planning and implementation, to empower the poor by establishing village groups, and to co-operate with Nepalese NGOs. At first the IRDPs concentrated on creating a rural infrastructure, including bridges, drinking water and irrigation systems. Gradually, however, greater emphasis came to be placed on an integrated approach. This involved community development activities, i.e. the mobilisation, organisation and training of target groups (men's / women's groups) around social and economic activities in many fields, such as literacy / non-formal education, the laying-out of vegetable plots, agricultural extension, nutritional information, savings and credit, latrine building, and the setting up of user groups to manage and maintain the infrastructure.

The evaluation notes that the two IRDPs have been particularly expensive because of the large proportion of overheads costs (65%) and the limited population coverage (75.000 people). Their results in terms of **empowerment of the poor** were also judged to be somewhat weak, both quantitatively and qualitatively. An additional criticism was that the rural development programmes – executed as 'self-managed activities' and focused at the grassroots level – had not contributed much to the decentralisation process at the district level initiated by the government in 1990. This is a sustainability risk to the positive achievement in empowering individual villagers.

3.6 Finland

Finnish approaches to poverty reduction in Nepal have been characterised over the years by large discrepancies in strategic vision between key actors and decision-makers in Helsinki and those at the small Finnish Embassy in Kathmandu. The present and former Chargés d'Affaires emphasised the need to promote economic growth and revenue generation as preconditions for poverty reduction in Nepal (interview with Mr Esa Hurtig 13, March 1997), which made it easy for them to relate to other donors with similar strategic priorities, such as the Asian Development Bank and the World Bank. Large investments in commercial forestry and the energy sector have thus been perceived as suitable Finnish contributions to Nepal's development. Distributional aspects and environmental considerations have received less attention than, for instance, the assumed mutuality of interests in projects which have mainly focused on delivering Finnish technology or expertise to Nepal.

At Finnida headquarters, however, more concern has been focused on the problems of inequality, weak democratic processes and environmental damage in Nepal. Considerable doubts have existed

about the assumption that the fruits of economic growth would automatically trickle down to benefit the poorest and otherwise disadvantaged population. The strong emphasis given to these concerns in the Finnish Government's latest aid policy document (Finnish, Cabinet 1996) has resulted in clear decisions to shift the balance of Finland's country programme towards interventions aimed at reducing existing inequalities, strengthening democratic processes and raising environmental awareness among the Nepalese.

The bulk of Finnish funding has gone into the power and telecommunications sectors, and into forestry and mapping. Roughly 10% of funds are channelled into direct or indirect poverty-reducing interventions, including a very effective community-based rural water supply scheme. A growing amount of new aid is being earmarked for sector policy reforms, such as in the primary education sector, and for democratisation and good governance.

No comprehensive evaluation of the poverty-reducing – or other – impacts of the Finnish programme for Nepal has ever been conducted. Nepal has, however, been included in several global thematic evaluations commissioned by Finnida's Central Evaluation Unit in the 1990s. Many mid-term and other reviews have also been conducted on individual Finnida-funded interventions. Since 1997 Finland has been shifting the focus of its Nepal programme away from the energy and other infrastructure sectors towards activities more directly aimed at reducing poverty and inequality, as well as at promoting democratic processes in Nepalese society. More attention will be focused on the status of women and children in particular. To this end, Finland has initiated planning processes to find the best ways of supporting the social sectors. Micro-credit programmes (in collaboration with the ADB) and sector programme support in the education sector (Basic and Primary Education Project (BPEP)), in collaboration with the World Bank, the EU, UNICEF, Japan, Denmark and Norway) have been identified as the most promising entry points. A major effort will also be made to support environmental administration and eco-labelling of Nepalese products as well as Nepalese NGOs in the environment sector. Finland is also still looking for ways to continue its support to the forestry sector, one of the former key sectors of Finnish assistance, as well as to support the strengthening of the Nepalese private sector.

The special relationship between Finland and the United Mission to Nepal (UMN), one of the largest INGOs in Nepal, is also worth noting. The largest Finnish development NGO, the Finnish Evangelical Lutheran Mission (FELM), is the largest single sponsor of the UMN. Also considerable amounts of Finnish official aid have been channelled to UMN through FELM – and in the future probably also directly. In addition to FELM, several other Finnish church-based and some secular NGOs have projects in Nepal.

3.7 Comparing the Major European Donors

The European donors examined here are officially committed to poverty reduction. Most of their country or strategy papers, however, lack detailed poverty analysis and translate the PR objective only vaguely into operational priorities. The different poverty-reducing strategies pursued are reflected in the chosen modes of intervention. These are not really designed to reach the target groups. They have barely established mechanisms for evaluating PR effectiveness and have not followed a participatory approach based upon a transparent consultation process. The present study classified the interventions of the six European agencies into direct and indirect PR sector policy reform and other categories based on information supplied by the donors. Table 3.1 summarises the findings of this portfolio analysis. The table should not be misread as a ranking of European donors.

Table 3.1 PR Classification of Aid Portfolios of Selected European Donors (% of total expenditure)

| | European Commission | DFID (UK) | Germany (GTZ, KFW) | DANIDA | SNV | FINNIDA |
|--|---------------------|-----------|--------------------|--------|-----|---------|
| | | | | | | |

| | | | | | | |
|-----------------------|------|------|------|------|------|------|
| Direct Poverty Red. | 0.0 | 6.6 | 11.3 | 5.3 | 70.8 | 1.2 |
| Indirect Poverty Red. | 62.9 | 18.6 | 24.3 | 11.8 | 15.0 | 10.1 |
| Sector Policy Reform | 28.2 | 35.0 | 28.7 | 33.4 | 3.5 | 13.5 |
| Other | 8.9 | 39.8 | 35.7 | 49.5 | 10.7 | 75.2 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

The Dutch SNV shows the greatest progress, with 71% of its aid committed to interventions which address PR directly and seek to target the benefits to the poor. All the other donors, with the exception of Germany (11.3%), have allocated relatively small amounts to projects or programmes which have a *clear link* between the intervention and a *specified group of poor beneficiaries*. Yet they all fund significant shares of interventions which have a *plausible link* to PR and can be expected to bring substantial benefits to the poor although others may benefit at the same time. The European Commission has a high share (62.9%) in indirect PR aid. Whether a project can be classified as direct or indirect PR depends upon the project design, not the sector addressed, targeting being the most important single criterion.

DFID (UK) and DANIDA have allocated around a third of their bilateral aid to sector policy reforms, followed by Germany and the European Commission. The policy reform interventions address classical sectors such as health, education, dairying, irrigation and agricultural research, but also good governance through the promotion of participation and democratisation, and support for administrative reform.

The high shares of aid devoted to ‘other’ interventions is not at all surprising. As most European donors subscribe to a development model that builds upon pro-poor economic growth and human resource development, they consequently support projects and programmes designed to foster economic growth through non-targeted infrastructural development in roads, energy, telecommunications, etc. but do give consistent priority to PR.

Individual European donors show distinctive features of involvement in Nepal: conceptually, sectorally, and regionally (see Table 3.2). While Finnida’s project aid emphasises forestry and DANIDA focuses on dairy development, both are very interested in telecommunications development, the reform of the primary education sector, and the issues of democratisation and good governance. The Dutch target their projects and programmes on the very poor areas and within these on the very poor and disadvantaged groups.

Table 3.2 Sectoral Disbursements 1991–95 as Reported by UNDP / Nepal (% of ODA)

| Sectors | EU | UK | Den | Ger | NL | Fin |
|-----------------------------|------|------|------|------|------|------|
| Agric., Forestry, Nat. Res. | 21.5 | 25.7 | 33.1 | 10.6 | 32.9 | 56.1 |
| Area Development/Rural Dev. | 23.9 | 7.1 | 13.4 | 17.9 | 31.6 | 1.7 |
| HRD, Social Sector | 0.8 | 18.5 | 14.8 | 20.4 | 4.8 | 16.7 |
| Industry and Trade | 0.0 | 0.0 | 27.6 | 6.9 | 12.1 | 0.3 |
| Transport and Communication | 0.0 | 34.2 | 2.4 | 42.2 | 6.4 | 5.1 |
| Energy | 0.0 | 1.5 | 1.3 | 0.0 | 10.7 | 19.7 |

Source: UNDP, *Development Cooperation Reports Nepal 1991–95*

The UK’s annual aid volume is larger than that of Denmark, Finland, and the Netherlands combined. DFID covers a wide range of sectors. Its projects show two regional foci, one around the Pokhara and another around Dharan. Both areas and their hinterlands are far from being the poorest regions of the country. The regional choice has a political rationale. The UK had recruited Gurkha soldiers for the British army from both areas and felt obliged to support them after retirement through various development projects (road building, area development etc.). More recently, DFID’s programme has become more poverty-conscious and is also emphasising policy reforms such as community forestry, public administration and management reforms.

Germany’s technical co-operation is strong in rural development, small and micro-enterprise development, and agricultural finance, while its financial assistance (FC) has up to now

concentrated on energy and industrial development. It is now shifting more towards social infrastructure. The European Commission's aid focuses on natural resource management, agriculture, and area development. The poor and disadvantaged groups are targeted in area development projects.

Nowadays, all donors are paying more attention to basic social services, participatory development and decentralisation. As human resource development and investments in basic social services are key factors for sustainable poverty reduction in Nepal, most European donors should increase their respective efforts.

Donors have usually come to Nepal with ready-made plans. They all apply the rituals of discussion and negotiation, but often the discussion is used only to legitimise and not to change the donors' pre-conceived ideas. However, probably owing to the failure of most donor-driven programmes and projects, a more serious and meaningful policy dialogue between the donors and Nepal has recently started. All donors have begun to emphasise Nepalese ownership but there is still a wide gap between rhetoric and reality, which is partly explained by Nepal's aid dependency syndrome, its weak institutions at all levels and its unwillingness to take the 'driver's seat'.

4. Case Studies of Selected Poverty-Orientated Donor Interventions

4.1 Approach to Case Studies

From a list of 28 interventions recommended by donor representatives as their ‘best practice’ PR interventions, 12 were selected for field-level case studies. The selection was made by the authors in consultation with Nepalese research partners led and supervised by Krishna Bhattachan. The selection criteria were: (a) donor balance; (b) sectoral balance (policy / rural / basic services/income generation); (c) geographical balance (and feasibility). Ten of the twelve interventions were supported by European agencies. The studies were conducted by three Nepalese research partners (Janak Rai, Rajendra Gurung and Hari Bhattarai), who spent 3–4 days on each case study.

The researchers were advised to conduct interviews and group discussions with about 30 stakeholders of the projects: managers and staff (expatriate and Nepalese), and intended beneficiaries: poor and non-poor, men and women, young and old, educated and uneducated, from various ethnic, professional, religious backgrounds, etc. The interview guidelines urged the researchers to regard the study not as an impact evaluation but rather as a ‘perceptions study’. The main focus was thus on the various informants’ **perceptions** of the relevance, sensitivity and impact of the intervention for the underlying core causes and characteristics of poverty. The researchers were advised to promise full anonymity to the informants, and thus to encourage them to express their opinions openly but confidentially. The questions asked included, among others, the following:

- Who are the poor? Why are they poor? In Nepal? In your district / village? Who are the poorest of the poor? What Nepali words and expressions do you use for them?
- The intervention: Is it seriously poverty-focused? Objectives? Philosophy? How is poverty perceived by this intervention? Who identified the project? Do the intended beneficiaries participate in setting the objectives? Who controls the project? What criteria does the project give to staff for beneficiary identification? Are there specified target groups? Proxies? Gender? Caste? Ethnicity? Class? Language? Religion? Are there pro-poor conditions? Has the project / programme succeeded in its targeting? What evidence is there of the impact on the poor? How is the impact evaluated? Does the intervention learn from experience? Ownership? Institutional development? Sustainability? If you had the authority, would you spend the money for the same purposes as the project has done?
- Operational environment: Which are the most important forces/factors beyond the control of the project / programme? Has the project tried to influence / inform external factors, e.g. HMG/N policies in a pro-poor direction?
- Popular wisdom about poverty, PR, donors and aid: metaphors, jokes, images, reputations. Reputation of the donor / project: serious / arrogant? dedicated / superficial? well-informed / ill-informed? effective / weak? good / difficult to work with?

4.2 Summary of Case Study Findings

Table 4.1 summarises our findings about these ‘best practice’ PR interventions. It categorises the interventions along several dimensions: (a) two or three of them aimed at reducing the poverty of the poor *directly*, 5–6 *indirectly* and four of them with other main objectives. (b) half of them were *poverty-oriented projects*, whereas the other half were oriented more towards a *pro-poor policy change*. Two-thirds were *mono-sectoral* and one-third *multi-sectoral*; five could be categorised as *income-generating* and two as *basic services interventions*. The table further shows the perceptions gained about the extent to which the interventions could be described as *poverty-oriented* (judged on the basis of the *intentions* indicated in their project documents), *poverty-sensitive* (in terms of the manner of implementation) or as interventions with a perceived *impact on the poor*.

All of the interventions were intended directly or indirectly to reduce poverty, but those studied lacked a clearly defined poor group as principal intended beneficiaries. During the design phase of the projects only a minimal dialogue with the poor took place which did not permit a thorough understanding of the poverty situation of Nepal or of the respective community. Most projects were donor-driven or driven by HMG/N. The intended beneficiaries were usually perceived as recipients. They were usually not encouraged to agree or disagree with the objectives, strategies, or procedures of the projects; empowerment has only occurred in rare cases. User-group formation at the grassroots level and capacity-building of support organisations have become common intervention strategies, but the sustainability of the projects and programmes can be questioned as they are driven by high-cost technical assistance with only limited local resource mobilisation. The targeting mechanisms were usually not sensitive to gender, caste, ethnicity, or degree of marginalisation or deprivation. Very few of the interventions studied had built-in systems to assess the impact on the poor. Five programmes were estimated to have had a poverty impact on the poor, though for several this impact was negligible. Section 4.3 sets out in more detail the twelve case studies.

Table 4.1 'BEST PRACTICE' POVERTY REDUCTION INTERVENTIONS OF EUROPEAN DONORS IN NEPAL

| Name of Project / Programme | Donor | PR category | Primary purpose | Mono-/ multi-sectoral | Project type | Poverty orientation score | Poverty sensitivity score | Impact on the poor score | Other observations |
|---|------------|-------------|-----------------|-----------------------|-------------------|---------------------------|---------------------------|--------------------------|--|
| Small Farmer Development Programme (SFDP) | GTZ | Indirect | Policy | Multi | Rural development | ++ | + | ++ | |
| Nepal-UK Community Forestry Project (NUKCFP) | UK | Other | Policy | Mono | Rural Development | + long-term | - short-term | - short term | |
| Gulmi-Argakhanchi Rural Development Programme GARDP-I | France/ EC | Indirect | Project | Multi | Rural Development | 0 | 0 | 0 | GARDP Phase-II only started in 1997 and could not be assessed. Lessons have been learned from past failures. |
| Gorkha Dev't Programme | GTZ | Direct | Project | Multi | Rural Development | ++ | ++ | + | |
| Skill/Mobile training | Helvetas | Direct | Project | Mono | Income Generation | ++ | 0 | 0 | Mobile training only innovative element, otherwise very traditional, male-biased approach. |
| Koshi Vegetable Seed Project | UK | Other | Project | Mono | Income | 0 | + | ++ | Originally no PR aims but implementation is |

| | | | | | | | | | |
|--|--|--|--|--|------------|--|--|--|--------------------|
| | | | | | Generation | | | | poverty-sensitive. |
|--|--|--|--|--|------------|--|--|--|--------------------|

Table 4.1 continued

| Name | Donor | PR Category | Primary purpose | Mono-/ multi-sectoral | Project type | Poverty orientation | Poverty sensitivity | Impact on poor | Other observations |
|--|--------|------------------|-----------------|-----------------------|-------------------|---------------------|---------------------|----------------|--|
| PRODEC Export Promotion Project | Fin | Other | Project/ Policy | Mono – | Income Generation | 0 | 0 | 0 | Originally no PR aims. Donor wanted to establish contact with private sector (as alternative to gov'm't). |
| Rural Water Supply and Sanitation Project RWSSP/Lumbini Zone | Fin | Indirect | Policy | Mono – | Basic services | 0 | ++ | ++ | Spearhead donor support for decentralisation policy and a demand-driven, participatory, step-by-step approach. |
| Irrigation Sector Project | ADB | Indirect | Project | Mono – | Income Generation | + | 0 | ++ | |
| Basic and Primary Education Project | Danida | Indirect | Policy | Mono – | Basic services | ++ | ++ | ++ | Danida has introduced sector development programme thinking in Nepal & attracted many other donors to co-ordinated action with national (MOE) ownership. |
| Participatory District Development Programme PDDP | UNDP | indirect/ direct | Policy | Multi – | All 3. | ++ | + | ? | Decentralisation is an important indirect strategy to change government policies in pro-poor direction. One component (social mobilisation) is directly poverty reducing. PDDP is a very new programme, too early to judge impact. |
| Biogas Project | SNV | Other | Project | Mono – | Income Generation | 0 | 0 | +? | |

Key: ++ = high (substantially positive)
+ = low or moderate
0 = none or negligible

4.3 Twelve Case Studies : More Detailed Assessment

Case No. 1. Small Farmer Development Project (SFDP)

The Small Farmer Development Project (SFDP) is the largest poverty-targeted credit programme in Nepal, run by the Agriculture Development Bank of Nepal (ADBN), and funded by the Asian Development Bank and the German GTZ. For the purposes of this study we have assessed only the GTZ support to the SFDP.

The primary focus of the project is to cater for the credit needs of small farmer households. Small farmer group formation, community development activities (CDA) and group activities (GA) are also envisaged within the programme. The project applies the strategic experiences gained in the German-funded Dhading Development Programme (DDP) on the development of farmers' self-help potential and the institutional autonomisation of their institutions as the Small Farmer Co-operative Limited (SFCL).

This SFCL promotion programme aims to target the SFDP loan programme at the poorer segments of society, a major objective being to organise poor agricultural households into self-help groups to build up their capacities to organise their collective effort for economic betterment. A three-tier organisational structure has been formulated with 'the group' at the grassroots level, 'the inter-group' at the ward level and 'the main committee' at the village development committee level. Each tier has its own specific responsibilities. The fact that the loan programme is based on farmers' needs, demands and organisational skills has drastically reduced its overheads costs and provided the farmers with effective access to a loan facility with relatively cheap interest rates.

The SFDP's intended beneficiaries are defined as poor agricultural households with per capita annual incomes of less than Rs. 2,500 or with less than 0.5 hectares of farmed land. This definition is somewhat diluted at the field level as households with larger holdings also appear to be participating in the Small Farmer Groups (SFGs). The well-to-do can access larger loans because of their higher risk-bearing and repayment capacity. Poorer households cannot obtain large loans because of the high risks involved. The poorest and landless members of the SFGs have access to loans on the basis of the collective liability of the group. Nevertheless, many poor farmers feel that a relatively large proportion of SFDP loans has gone to big investors and large landholders.

The GTZ and the Agricultural Development Bank of Nepal (ADB/N) provide technical assistance to the SFCLs to improve their capacity. The SFCLs of Dhading district are provided with seed money directly by the DDP to recover their operational cost and SFCLs outside of Dhading are provided seed money through the ADB/N. The SFCL executive bodies have access to the ADB/N and other linkage banks for investment loans. The SFCLs are mandated to determine the interest rate paid by the farmers.

Easy access to SFCL-managed loans has been regarded by farmers as a major production initiative. Vegetable growing for the Kathmandu market has emerged on a commercial scale in Chhatre Deurali. Even landless farmers are renting land and investing in vegetable growing. Access to funding permits both self-employment and cash income generation. The farmers have also used SFCL loans to buy livestock as productive assets. The SFCL has established a marketing link with a private dairy company; the sale of milk has thus emerged as another means of earning cash for the farmers. Likewise, because of the provision of SFCL loans for investment in fertilisers, agricultural productivity has increased immensely.

However, according to the small farmers interviewed, the prevailing market mechanism is not favourable to them. They also lack the technical know-how for vegetable growing and have no access to extension services.

Conclusion

The introduction of a three-tier organisation and the foundation of the Small Farmers Co-operative Ltd helped the SFDP to become a viable business by cutting transaction costs, providing small farmers with effective access to credit, and developing their administrative, managerial and leadership skills. The SFDP programme has opened up new opportunities for poor farmers. Lack of investment is no longer an obstacle. These changes have been regarded as a major institutional benefit to ensure self-reliant and sustainable development.

Case No.2. The Gorkha Development Project (GDP)

The Gorkha Development Project (GDP) is a regional rural development intervention of the German GTZ, and builds upon experience gained in other IRDPs such as the neighbouring Dhading Development Project. The project pursues two interrelated objectives: (a) to mobilise the people at the grassroots to exploit their potential for self-reliant development and to channel effective demand upwards to the government and private sector delivery systems for services appropriate to their needs; and (b) to put the development institutions at district level in a better position to meet the demands of the beneficiaries in a sustainable manner.

The project is essentially poverty-focused since its intended beneficiaries are defined as poor agricultural households in acute unemployment and traditional low castes, and regionally the more inaccessible mountain areas of northern Gorkha district. Its Income-Generating Groups (IGG) and Saving and Credit Groups (SCG) are major self-help beneficiary groups, which are also perceived as important pressure groups for better access to services and prerequisites for breaching the poverty trap.

Though the project is multi-sectoral, it does not cover all the sectors normally included in rural development projects, but only incorporates innovative development programmes implemented through a number of agencies including governmental, non-governmental, financial and private sector institutions. It systematically encourages institutional linkages between beneficiary groups, service delivery organisations and national/local NGOs, through which NGOs, social mobilisation and organisational development activities as well as infrastructure programmes are implemented. Beneficiaries' self-help group functions include internal and external resource mobilisation. The project's savings/credit programmes and revolving funds have been instrumental in catering for the small-scale credit needs (production, household and other social purposes) of poor people, thus reducing their dependence on local moneylenders. Poor agricultural households are being provided with production support such as technical assistance, productive assets, subsidised seedlings, etc. The social mobilisation programme includes confidence building and self-esteem development among the socially deprived low castes. The beneficiary groups enjoy full ownership of the programme and its community development activities. Women are also being organised into separate women's or mixed groups.

Feeder roads are being constructed by self-help groups using labour-intensive and environmentally friendly technology. The 'green road' construction generates employment, income, skills and self-confidence among the self-help groups.

Conclusion

According to the beneficiaries interviewed, the project has improved their access to loans and technology, use of improved seedlings, pesticides, fertiliser, etc., transportation, e.g. feeder roads, training, and other services. Their horticultural productivity and incomes have increased. Likewise their managerial skills have developed substantially as they can now successfully administer and arrange their savings and loan programmes and they are able to manage community development activities. The evaluators are of the opinion that GDP and its associated programmes have contributed substantially to more sustainable livelihoods for rural poor households.

Case No. 3. Gulmi Arghakhanchi Rural Development Project (GARDP-I)

The Gulmi Arghakhanchi Rural Development Project is a European Commission-funded intervention, the first phase of which was a traditional multi-sectoral integrated rural development project aiming to provide basic social, economic and other technical services to rural people and implemented through the government's line and sector agencies at district level. All the sectoral programmes were formulated centrally by the line agencies, without any participatory, community-based or innovative approaches. The GARDP initiated 'direct village funding programmes' and started to train villagers in planning skills so that they could themselves identify their needs, prioritise them, plan their programmes, implement them through user committees, and monitor them. The GARDP was, however, infrastructure-oriented rather than focused on income-generating activities. As it was implemented as a test project, its coverage was restricted to accessible places around the district headquarters.

Despite its poverty alleviation objective, the project lacked focus on poverty issues because its objectives had been amalgamated with the sectoral policies and objectives of the line agencies. In other words, it was assumed that poverty reduction could be achieved indirectly. The major poverty-related components were the women's development programme and the GARDP support for the Small Farmer Development Project. Beneficiaries interviewed felt that the project lacked in-depth insight into the poverty situation in the area. The intended beneficiaries were not identified on the basis of their degree of marginalisation, deprivation or other social, ethnic or gender considerations.

The second phase of the GARDP was designed to be an environmental management plan for the two districts, and has totally rejected the previous project design and procedure, which indicates the failure of the first phase. The new phase also aims at poverty alleviation, but it still lacks feasible working definitions of poor groups and principles for focusing and targeting, and still counts on contributing indirectly to poverty alleviation in the area.

The beneficiaries were of the opinion that the project had promised a lot but done little for poverty reduction. It lacked income-generating and social mobilisation and 'software' programmes. Without income-generating activities, the PR goals could not be achieved. The women's development programme was seen as poverty-related, but it was restricted to certain accessible places and could not effectively reach the poorest and most socially deprived women. A beneficiary of the programme remarked '*Gund Ko Dallo Dekhaera Inta Ko Dallo Le Hanyo*', which means the project 'made them sweat first and hit them with a brick later.' The programme was also criticised for a lack of continuity after the termination of the first phase. However, intelligent poor girl students had received scholarships from GARDP-I.

Conclusion

Beneficiaries of the project consider that the major benefit of GARDP-I has been infrastructure building and the creation of community assets such as feeder roads, school buildings, water and irrigation schemes. But not being participatory and community-based, these programmes were officially guided and directed by the contractors. The infrastructure programmes, such as feeder roads, were not aimed at employment creation among the beneficiaries. The roads have not been instrumental in generating capital and in stimulating other economic activities, except for a few retail shops. Though women were provided with skill training and some productive assets, they have not started to apply these skills in their professions or in self-employment. The project did not create institutional arrangements at the grassroots level for the implementation, operation and maintenance of the micro infrastructure projects. The low focus on social mobilisation and organisational development programmes meant that the project had had no significant impact on expanding the capabilities of rural people. A major failure was in institution building, capacity building and empowerment of individual beneficiaries and beneficiary organisations.

The GARDP-supported irrigation scheme was meant to increase productivity but only a few better-off and landowning people were reported to have benefited from the scheme.

Case No. 4. Rural Water Supply and Sanitation Project (RWSSP)

The Rural Water Supply and Sanitation Project (RWSSP) is a sectoral intervention funded by Finnida. It has been designed to be community-based and demand-driven, and its participatory ‘step-by-step’ approach ensures the local communities a leading role in decision-making on issues concerning the implementation of the water schemes. One of the primary purposes of the intervention during its current second phase⁹ is to influence national rural water supply policy and to support the decentralisation policy pursued by the Nepalese government. This will be done by strengthening the capacity of District Development Committees, District Water Supply Offices (DWSOs) and NGOs and small private companies which act as ‘support organisations’ (SOs) in the design, construction and maintenance of the water schemes.

The ultimate aim of the project is to support water user committees (WUCs) at the community level in the identification, prioritisation, planning, implementation and monitoring of water supply and sanitation development activities. Human resource development activities such as training and organisational development, are instrumental for skill development, for sustaining the benefits of the project and for ensuring the relative self-reliance of the local communities in terms of maintenance and operation of the schemes.

The major objective is to provide safe drinking water and improved sanitation facilities to the rural population of the Lumbini zone. Explicitly this has no direct PR objective. However, the project seems to be gender-sensitive and it envisages the active involvement of women in the decision-making processes and other community activities. The project document expects improvements in water services to have indirect positive impacts on the economic situation of the beneficiaries. Time savings and improved health conditions would be major benefits.

Despite the lack of an explicit poverty orientation in the project documentation, the beneficiaries of the RWSSP think the project may be an entry point for poverty reduction in the districts it covers.

⁹ Initially the Department of Water Supply and Sewerage (DWSS) of HMG/N was the responsible agency as it is in all other drinking water programmes in the country. Starting with the second phase the DDCs of the six districts of the Lumbini valley are the implementing agencies, with the Ministry of Local Development as the official co-ordinating counterpart institution at the central government level. Also, the role of the local water user committees, as well as that of the local NGOs and private sector companies, has been strengthened.

The project's benefits are seen to reach far beyond the strictly sectoral boundaries. Its impacts on livelihoods, resources, knowledge and empowerment seem to be multifarious. The water schemes and institutional toilets are regarded as community assets or common property. Additional major impacts on the livelihoods of beneficiaries are the stimulation of livestock raising, kitchen gardening (which results in considerable increases in the vegetable consumption of households), primary health care and education. The project's low-cost maintainable approach to the transfer of technology has facilitated a change of mentality that may be beneficial in other sectors as well. Another useful and replicable innovation is the way the revolving operations and maintenance fund has been turned into a credit scheme that can also cater for the non-water-related small-scale credit needs of households in the area.

Conclusion

The impact of the water scheme on the beneficiaries' quality of life appeared to be very positive. Women's groups in particular are learning about preventive health care and sanitation.. Sanitation and hygiene conditions in the villages appeared to have improved markedly. The impact on children's schooling is also positive, as the time previously spent in water collection can now be spent on studies and homework. Beneficiaries feel they 'own' the water schemes, because they have made contributions in both cash and kind to their implementation and to the operations and maintenance funds. Irrespective of their diverse socio-economic backgrounds, all users make equal contributions in cash and kind to the schemes' implementation, operation and maintenance. They also enjoy equal benefits. Women's role in decision-making and other community activities appeared to be encouraging.

However, the project does not appear to have been successful in influencing the rural water supply sectoral policy of the government. The DWSOs are not complying with the step-by step approach. Similarly, the project's working procedures and approaches are not being replicated in water schemes in other parts of the country (Sharma and Dixit, 1996). Besides the physical benefits, the most outstanding benefit of the RWSSP has been in confidence-building, managerial skill development and empowerment of grassroot institutions, in particular the water user committees. Their experience, skill and confidence are regarded as a basis for further programmes related to income generation, savings and credit programmes, etc. In this indirect sense the RWSSP has created significant platforms for subsequent programmes related to poverty reduction.

Case No. 5. Nepal – UK Community Forestry Project (NUKCFP)

The Nepal-UK Community Forestry Project (NUKCFP), initiated in July 1993, supports the development of community and private forestry in the hills of Nepal. It seems to be very much an evolutionary project based on experiences from its predecessor projects, notably the Koshi Hills Development Programme from 1987 to 1993. The NUKCFP is implemented by the Department of Forestry, with financial and technical support from the Overseas Development Administration, (now the Department for International Development, DFID) of the United Kingdom. The project covers four districts of the Koshi Hills (Dhankuta, Tehrathum, Bhojpur, Sankhuwasabha) and three districts of Dhawalagiri Hill (Baglung, Parbat and Myagdi), seven districts in all.

The stated objectives of the project were to strengthen the capability of the Department of Forestry to support community forestry activities and Forest User Groups (FUGs) in order to establish a forest management system which will conserve and expand the forest resources needed to sustain traditional farming systems and livelihoods in the selected Hills. Thus, poverty reduction was not the direct objective, but indirectly the project was assumed to be helping people to meet their basic

needs for forest products on an equitable and sustainable basis. Out of the total of 21 stated project activities only one was directly concerned with the poor (minorities and women).

The project document suggests community management as the best means of achieving sustainable use of the forest resource in much of the hills area. However, it did not suggest any indicators that could be used to identify the poor. Neither were there any strategies for finding out poor people's needs on coping mechanisms, or the project's impacts on the poor. The project was primarily formulated with the help of external consultants without giving any opportunity for the poor to participate in its design. None of the Nepalese forestry institutions were involved in developing the project framework.

The project has no targeting mechanisms to incorporate the poor. It has a common approach to all its beneficiaries. However, its overall aim is anyway indirectly related to poverty: namely to conserve and expand the forest resources and to support the process of handing over user rights to the local communities.

The district offices of the Department of Forestry have been the major implementing organisations. However, the project has emphasised strongly that the District Forestry Officers (DFO) are not the implementing agencies, but that their role is to provide a forum in which community stakeholders can interact, learn and adapt to find suitable roles for all concerned.

The NUKCFP has supported nursery training, plantation subsidies and income-generating activities in order to strengthen the capacity of both DFOs and FUGs in managing community forestry. The DFOs were also trained to reorient them to community forestry systems; as a result, the DFOs in the project districts have increasingly adopted participatory approaches to district-level community forestry management and support activities.

The overall quantity and quality of the project outputs were regarded as satisfactory. However, users – especially women and the poor – were not getting enough opportunities to take part in community forestry development processes owing to the lack of information about users' rights and of confidence to assert their rights. As a result, most of the user committees visited were being controlled by village élité, i.e. the rich, powerful, educated, teachers and local politicians.

As no systematic impact assessment study has been carried out to evaluate the overall effectiveness of project activities on the FUGs in particular, women, the poor and the disadvantaged, it is difficult to estimate the proportion of outputs reaching the poor. However, in most cases, the strict control of the use of community forests by the user groups has had **unintended negative effects for the poorest**, who prior to the establishment of community forestry survived by collecting fuelwood and other forest products for sale in the markets. The problem of the very poor losing their livelihood because of the project was repeatedly noted by DFO staff, project staff and users. The project had not provided any alternative solutions for these people.

Conclusion

The project activities were not judged to be focused on poverty reduction because the project was not designed to fulfil the immediate needs of the poor and disadvantaged by providing them with direct opportunities for income and employment. Members, especially women, of the Ramite Danda FUG of Dhankuta District stated that the priorities of the poor were subsistence and income to provide adequate and secure livelihoods, but this has not been the focus of the project.

Nevertheless, some poor people were obtaining benefits through the income-generating activities supported by the project. And in the long term community forestry will certainly be helpful to the livelihoods of the rural poor: by providing recurrent subsistence needs – for fodder, fuel, food, fibre

and many non-timber products; as a source of income, especially in slack seasons; and as capital or bank savings to be cashed to meet contingencies. But the essential condition is that the poor should have an equal chance to be involved in the whole process of community forestry without any discrimination.

Case No. 6. Skills and Know-how Imparted at the Local Level (SKILL)/NEPAL

The SKILL project (Skills and Know-how Imparted at the Local Level) is a Helvetas (Swiss)-funded project working on vocational training for people at the grassroots level in order to provide the necessary technical services to the local communities. The stated purposes and objectives of the SKILL programme were to alleviate the unemployment and underemployment problems of less educated and less advantaged people in both urban and rural areas in Nepal, who were keen to learn basic vocational skills for income generation and self-employment. It has adopted the mobile training approach based on local need and demand and focusing on practical methods of learning.

The training has concentrated on the fields of electrical, plumbing and other mechanical skills. The SKILL courses are short, compact, flexible to suit local situations and provided only when the need is clearly articulated by a community group or an NGO. During the period 1992–96 SKILL conducted 47 training courses in association with 41 local partners, benefiting in total 638 participants and covering 25 districts in various geographical and development regions of the country. Helvetas / Nepal allocated a total budget of Rs. 98 million for the SKILL programme during this period.

However, our findings in the field revealed that most of the benefits of the SKILL programme had been utilised by relatively rich families. Very few poor SKILL graduates were able to obtain self-employment opportunities or to become involved in income-generating activities because of their lack of finance. It seemed that the SKILL programme had failed to reach the poor and needy segments of the population. This was probably because SKILL has no direct linkage with grassroots people in selecting, organising and mobilising the primary target groups. SKILL provided house wiring training for some untouchables but found that they remained unemployed because high caste people would not allow them to work inside their houses. Discouraged by this experience SKILL refused the request for training by a group of untouchable people from Dang district. Similarly, there has been no attempt by local partners / line agencies to include women in the SKILL training programme (with the exception of some female participants in Ilam and Khandbari).

The SKILL programme is not strictly a poverty-focused project. Its intended beneficiaries are not necessarily the poorest of the poor, but the underemployed and unemployed youth at local level. The SKILL project documents specify no definition of the poor and no baseline criteria against which the project's impact on the poor or marginalised could be evaluated. Neither were other social factors like gender, caste, class or ethnicity considered properly when identifying the project. Poor people did not participate in the identification of their needs. The project design was guided entirely by the donor's experience in the same field and the interest of a local partner NGO.

SKILL has categorised its target population into two groups. The 'primary' target group consists of individuals and local partner organisations (local NGOs, community groups) to whom SKILL gives fully subsidised training packages. The local partner should be a local, community-based organisation with a strong commitment to community development through and with local people, and well recognised by the community for its active support in improving the social and economic condition of the poorer segments in the locality. Governmental and non-governmental organisations and official Village Development Committees (VDCs) are regarded as SKILL's secondary target group for whom the training packages were developed and conducted on a full cost-recovery basis.

The SKILL training programmes are usually implemented in three steps: need assessment, training and follow-up. The assessment of training needs is done jointly with the local partner in a participatory way taking into consideration the existing constraints and opportunities for the training programme.

Conclusion

According to estimates (no monitoring data are available) about 10% of the total programme outputs were reaching the poor. Most of the training is out of reach of the poor and marginalised. The poor cannot participate unless their daily needs are fulfilled. The training activities were seen as appropriate only for those people who had no 'hand-to-mouth' problems and who had basic education and some financial capability to run small enterprises.

As far as caste, ethnic group and gender are concerned, the SKILL project has not been able to bypass existing socio-cultural constraints. However, for those who did gain access to training the overall impression was positive. It has begun to show an impact on the community by providing employment opportunities for young people to improve the economic condition of their households. It has also helped the local communities to be less dependent on outsiders for basic but essential household jobs.

Overall, although it was intended to be extended to the poor and marginalised, the project has not developed any indicators to identify such people nor the channels through which it can affect the target group. Hence, SKILL was not a seriously 'poverty focused' programme, but a programme which was intended for poverty reduction but with unclear strategies and processes for reaching the poorer and disadvantaged people.

Case No. 7. Koshi Hills Seed and Vegetable Project (KOSEVEG)

The Koshi Hills Seed and Vegetable Project (KOSEVEG) emerged in 1993 through an evolutionary process, learning from the experiences of previous British-funded projects since 1980 in the same area. At the time of the study KOSEVEG was running its second extension phase from January to July 1997. The project area consists of the four districts (Terhathum, Bhojpur, Sankhuwasabha and Dhankuta) in the Koshi hills. In addition, it has extended its activities to four districts (Baglung, Myagdi, Parbat and Kaski) of West Nepal since 16 July 1996.

KOSEVEG was designed to be an effective, sustainable and market-oriented seed and vegetable programme, which aimed to expand production, to improve access to quality seed by farmers, in particular women and poorer groups, and to establish a private sector seed programme to improve and expand marketing opportunities. But the project has never explicitly spelled out how the poorer, and women, farmers could enhance their access to quality seeds or to markets to raise their living standards.

The Department of Agriculture and the project team are the principal implementing organisations of KOSEVEG. The project team at central level was composed of a senior seed production specialist (SSPS), a marketing specialist, a sociologist and a management and evaluation officer headed by the Team Leader.

The project has emphasised the group approach with three main types of groups as a cost-effective way of providing services to the intended beneficiaries. Seed Producer Groups (SPG), Seed Potato Producer Groups (SPPG) and Women Farmers' Groups (WFG) have been supported with quality foundation seeds, technical advice, seed certification services, seed handling equipment, and

training in group management and marketing skills as well as with workshops, tours and regular visits by technical staff.

A total of 86 different types of farmer groups (37 SPG, 4 SPPG and 35 WFG) with a total of 935 members are the direct intended beneficiaries of KOSEVEG. The indirect beneficiaries have been the seed entrepreneurs like the members of the Koshi Hills Seed Entrepreneurs and Producers' Association of Nepal (KOSEPAN), the Seed Entrepreneurs Association of Nepal (SEAN) and active local seed traders.

According to the project's own records, 177 of the 935 farmer participants were classified as belonging to 'the poorest' at the beginning of the project, the criterion being their food self-sufficiency (less than 6 months). There were 328 farmers whose crops lasted for 6 months; 451 had food available for a whole year and more. Although the project had no other definition of a poorer farmer, one can assume that the 484 farmers who did not have food available for a year could be categorised as poor. Similarly, there were 451 relatively rich farmer beneficiaries at the beginning of the project. By the end the number of poorer farmers had fallen from 505 to 359 or from 52.8% to 38.4% of the total 935. This might perhaps be called a success story of poverty reduction. However, many of our informants did not see it this way for the following reasons. The proportion of female farmers among the participants had dropped from 45% at the beginning to 39% at the end of the project. Moreover, the project had targeted 935 farmers only 53% of whom were poor in terms of food sufficiency (no other indicators were used). This is a fairly insignificant contribution to poverty reduction in a wider national context, especially as the project was so designed that it cannot be replicated in other parts of the country without heavy external support. Thus several of our informants felt that projects like this make Nepal more dependent on foreign aid.

Apart from the food self-sufficiency criterion we found no other definitions of 'the poor' or 'poverty' nor any specified approach to 'poverty reduction' in KOSEVEG documents. There was also no mechanism to assess how the poor were benefitting from project activities or the new market-oriented private sector seed programme. KOSEVEG has no clear strategy towards the landless poor in the project area. Instead, the KOSEVEG documents and the KOSEVEG staff interviewed emphasised the concepts 'increased production' and 'increased cash incomes', reflecting an assumption that increases in production or income automatically lead to reduced poverty. However, the farmers interviewed in the field research categorised 'the poor' into two groups: i) farmers who have little and unproductive land and whose own production fulfils the household's food demand for 5 to 6 months only; ii) landless farmers, agricultural labourers who always face 'hand-to-mouth problems'. According to the farmers interviewed, KOSEVEG had not been able to help the second category, which included the untouchables, Rais, Limbus and other hill castes, but also some Brahmin / Chhetri households. But the first category had benefited from the extension and infrastructure (irrigation) facilities provided by KOSEVEG.

Conclusion

The views of most of the farmers and other informed observers regarding the project were positive overall. Most considered KOSEVEG to be serious, dedicated and sensitive to local opinions and perceptions. It had increased the food availability and cash incomes of the beneficiary farmers through increased production and sales of fresh vegetables and seeds. But the socio-economic characteristics of the members of the farmer groups indicate that KOSEVEG never paid proper attention to poverty during the programme's preparation in order to maximise the project's benefits for the poor.

Case No. 8. The Irrigation Sector Project (ISP)

The Irrigation Sector Project (ISP) provides small and medium-scale irrigation facilities for rural people. The ISP was financed by a loan of US\$36.3 million from the Asian Development Bank (ADB). It started in March 1989.

During the implementation period (1989–96), the irrigation development target was revised three times from an initial 22,000 ha in 22 districts to 64,000 ha in 35 districts (19 districts of the Central and 16 districts of the Eastern Development Region). In May 1993, the loan amount was reduced to US\$26.5 m., of which, according to the agreed financial plan, HMG/N had to contribute local currency equivalent to US\$3.308 m. while the beneficiaries had to contribute the same total amount.

The ISP was planned by HMG/N at central level and was primarily designed to assist the government in achieving its development goals in the agriculture sector which include increasing agricultural productivity, creating rural employment and improving farm incomes. The stated objectives of the project were to increase food production, to raise opportunities for employment and to generate income for the farmers in the project area. Poverty reduction was one of the ultimate intentions since the majority of the beneficiaries were poor farmers. However, it is difficult to establish whether the project achieved this objective since it never had a clear perception of or approach to poverty.

The ISP was designed as a tool for the government's new irrigation strategy in which emphasis is laid on the development of quick yielding small and medium-scale irrigation schemes. The new approach similarly has placed 'farmers' at the centre of irrigation development activities and emphasised the importance of their participation in all stages of the development, namely from planning to construction, operation and maintenance so that the farmer beneficiaries would be given a sense of ownership of the schemes. Although the ISP was not designed with the primary objective of poverty reduction, it has assisted poor and marginalised people in some cases. For example, it has provided farm employment and income-generating opportunities for poor people with no other means of livelihood. However, according to ISP representatives it is too soon to expect a rapid change in all the socio-economic indicators in the project area.

Similarly, the project was not designed to target the poor by some special targeting mechanism since it adopted a common approach to all beneficiaries within the areas covered. The chosen districts were not selected on the basis of some relative welfare or poverty criteria. Rather, the project areas (the Central and Eastern Development Regions) were selected from among the five development regions of the country because they had a relatively well developed road infrastructure, good support services and high potential for the development of small and medium-scale irrigation schemes – all factors which were crucial to the success of the project.

The Department of Irrigation under the Ministry of Water Resources was the Executing Agency. The DoI had organised its field offices to enable them to implement the irrigation sector programme. The involvement of the farmers was sought throughout the programme from its inception, planning and design; to its construction, operation and maintenance.

From the project documents it appears that neither the donor (ADB) nor HMG/N had any clear idea about how the programme would improve the livelihoods of the poor. Consequently whether poverty does decline because of the project intervention depends on how far the poor participate in the export sector (by producing cash crops themselves or as agricultural wage labourers) and on the extent to which their incomes rise as a result of more or higher wages along with the increasing demand for labour on the farms. Unfortunately the ISP lacks reliable data to estimate what proportion of its outputs have reached the poor.

Conclusion

Our field research suggested that all beneficiaries within the project areas were getting water to their land without any discrimination. But there is no positive discrimination in favour of the poor. The beneficiaries' overall impression of the was mostly positive with respect to livelihood security, farm income generation, employment generation, food security and agriculture production for those holding land. The irrigation project was less effective and less instrumental however, for the very poor because of their landlessness.

Case No. 9. Basic and Primary Education Project (BPEP)

The Basic and Primary Education Project (BPEP) is a large-scale education sector reform programme of the Ministry of Education which through gradual expansion will aim at nation-wide coverage and achievement of the goal of 'Education for All'. The project, in operation since 1992 and currently covering 40 districts, is assisted by many different donor agencies such as the World Bank, UNICEF, DANIDA, the European Commission (EC) and the Japanese International Co-operation Agency (JICA). Norway and Finland have also decided to join the donor consortium supporting the BPEP.

The objectives of the BPEP are a combination of tangible improvements at the school level and impact on the education sector policies of HMG/N. The prime long-term goal is to assist in ensuring a better life for the Nepalese people through the provision of quality education at the basic and primary levels (DANIDA, 1995a:45). At the school level the BPEP aims at improving the quality of education, increasing equitable access to education and strengthening primary school management.

The decline in quality remains the central problem facing primary education in Nepal. Only a limited number of those who enter school will eventually complete the primary cycle and even those who do complete it have not always learned enough. The enrolment of girls remains very low. Enrolment rates are also low for children from disadvantaged communities. Lack of trained teachers, the low number of female teachers, poor and inappropriate curricula, inadequate teaching materials, insufficient textbooks, poor physical school infrastructure and maintenance and weak supervision are some of the problems hampering the quality of primary education in Nepal.

An important feature of the BPEP's design is the Resource Centre as the backbone of the sub-district education management and development strategy. 10–15 schools are clustered around a Resource Centre (RC), manned by one or two Resource Persons (RP) who are responsible for providing training, supervision, monitoring and other related activities to the schools in the cluster. In 40 districts, there are 670 RCs covering 9,207 primary, 1,191 lower secondary and 1,305 secondary schools (all government schools). The RC is a new institutional unit in the Ministry's educational structure. It acts as the link between the District Education Office and the local schools. RCs implement all the major components of the BPEP. Another important strategy of the BPEP with high relevance to poverty reduction is its effort to make basic and primary education accessible to all, including the poorest, by the provision of non-formal education for women (WEP), an out-of-school programme (OSP) and special education for disabled children.

The first phase (1992–97) of the BPEP is completed. In this five-year period the project has focused more on expanding its activities and inputs to formal and non-formal education. During FY 1995/6 it covered 11,703 schools in 40 districts. It is impossible to assess the proportion of outputs reaching the poor and the very poor (taking account of gender, caste, class and ethnicity) because no such data are available. There was a Mid-term Review Report (MTR) in 1995. This pointed out

that, despite these inputs to the improvement of education quality, there was no clear evidence yet that they were resulting in increased learning achievements. The *Nepal Multiple Indicator Surveillance (NMIS)* (National Planning Commission of Nepal and UNICEF, 1996) mentioned that the BPEP districts had had slightly higher attendance rates and lower repetition and drop-out rates for both boys and girls than the non-BPEP districts. Given the project's total budget (an estimated US\$118.5 million) and comparing this investment with that of HMG/N in non-BPEP districts, this achievement is definitely not encouraging. BPEP failed to reach the most needy communities (e.g. ethnic minorities and low-caste children in remote areas) adequately. It was also evident during our field work in Chitwan District that such programmes have yet to include the most disadvantaged sections of society, though officially schools are accessible for all. Nevertheless, the MTR team found increased awareness of the importance of quality at all levels, a new curriculum implemented nation-wide, new and effective textbooks developed, distributed and used in classrooms, teachers trained and an innovative non-formal programme put into operation. The weaknesses identified were the lack of an effective school supervision system, the restricted coverage by in-service teacher training and the limited availability of supplementary materials in schools. The improvement of education is a continuous process and its effects have to be seen in a long-term perspective, the MTR concluded.

In Chitwan (where the field research for this study was carried out) the BPEP has been in operation since 1993. There are 14 Resource Centres covering all the 322 government schools (50 high schools, 26 lower secondary and 246 primary schools). 191 non-formal classes are being implemented through the centres to increase the equitable access to basic and primary education. The most visible outputs of the BPEP are the school buildings constructed under the programme (from 1993/4 to 1995/6, 293 school buildings were constructed). The better classrooms and improved furniture have attracted more students into primary school. All the teacher respondents appreciated the importance and contribution of the RC component of the project. But they also complained that most of the time the RC remains closed and that the supervision given by the Resource Persons (RPs) was weak. The RPs are overloaded with various tasks and spend little time in their respective centres. It was said that there is a lack of co-ordination between the HMG school supervisors and the project RPs. The politicisation of their selection and transfer also created problems.

Conclusion

It is difficult to make a definitive judgement on the PR impact of the BPEP. DANIDA's evaluation of the poverty alleviation of its Nepal country programme (DANIDA, 1995a) considered the BPEP to have high relevance for 'reaching the poor' and thus contributing to poverty reduction. The majority of beneficiaries of non-formal education come from poor families such as low-caste and landless families. It is difficult to analyse the proportions of children enrolled in primary school in terms of their economic background. All the teachers interviewed for this study were of the opinion that the majority of the enrolled students come from poor families.

The better physical infrastructure of primary education, the recruitment of female teachers and the village awareness programme also help to enroll more students into the schools. The new curricula for formal schools and literacy classes provide more practical knowledge for the children and functional knowledge and skills for the women. All the beneficiaries appreciated the positive contribution of the BPEP. The institutional development of the Resource Centres is making an impact on the development of schools' teaching and learning processes of schools as well as in the better co-ordination between the Centres, the districts and the local schools.

The problem of the quality of education remains unresolved. There is an urgent need for the project to focus on actual qualitative outputs. Its performance in terms of students' achievements is not

satisfactory despite the huge investments made. Some Terai districts have very poor outputs and some remote districts lack supervision from the central units. Similarly the decentralisation process is still very weak in the BPEP project design. The involvement of various donors with their own criteria is reported by the Ministry to have created some problems in the programme's co-ordination. Though the BPEP is proclaimed as the strongest endeavour so far by the Nepalese government to achieve the goal of 'Education for All', it still has a long way to go to overcome the existing challenges.

Case No. 10. Biogas Support Programme (BSP)

The Biogas Support Programme (BSP) is one of the main national-level intervention projects of the Netherlands Development Organisation (SNV) in Nepal. SNV/Nepal is implementing the BSP in conjunction with several other agencies: the Agricultural Development Bank (ADB/N), Nepal Bank Limited (NBC), Rastriya Banijya Bank, recognised private biogas companies and (I)NGOs. The primary objective of the BSP is to reduce dependence on the use of firewood, agricultural waste and dung cakes as cooking fuel and to improve the living conditions of rural families. The BSP also aims to improve the hygiene and health of the rural population, especially women, by eliminating the smoke produced while cooking on firewood and by reducing the hardships faced in firewood collection. A further objective is to increase agricultural production by promoting optimal utilisation of digested dung as fertiliser.

The BSP does not have poverty reduction as one of its objectives. Its target group consists in principle of all Nepalese families who own at least one head of cattle and who live below 2,000 meters. Given the present construction costs of a biogas plant, only economically well-off farmers can install a plant¹⁰. The poorer people can neither afford the cost nor obtain a loan from a bank for a plant. In this regard, the BSP does not reach the poorest sections of the population¹¹. Though the BSP does not have any targeting mechanism based on caste or ethnicity, field research findings reveal that the majority of users are high caste Brahmins (55%) and Chhetris (25%). Gender-wise, women are the primary beneficiaries.

The BSP assists HMG/N in financing subsidy grants¹² for biogas plants ranging between 27% and 63% of the total costs depending upon plant size. The subsidy has had very positive impact on expanding the installation and use of biogas plants in Nepal. More than 22,000 plants have been installed in 59 districts since the project started. Any new company which wishes to get involved in biogas may participate, but the BSP exerts a strict and tightly sanctioned quality control system for these commercial service providers.

Poorer communities and groups have participated little in biogas activities. In Chitwan for instance, no Chepangs (the indigenous and most marginalised people) were reported to own biogas plants. Similarly there were very few Tharus (another indigenous group) owning biogas plants. The poor economic conditions, low literacy level and lack of awareness are the constraints explaining the low participation of these people in the programme. Scarcity of cash savings was indicated as the main

¹⁰ In 1985, the New Era evaluation stated (P.11) 'It is mainly the richer sections of society that have availed themselves of the loan programme's benefits, because they can most easily fulfil the banks' requirement for land as collateral, and meet loan repayment obligation over 7 years. The subsistence level population, on the other hand, preoccupied with basic needs, cannot afford to invest in cooking or lighting facilities, given the high cost of a gobar gas plant' (New Era, 1995:11).

¹¹ 'Gobar Gas is not meant for us (the poor). With that money, I can get my daughter married' replied one low caste (Damai) villager of Jutapani VDC, when we asked why he did not install a plant.

¹² Rs 7,000 for Kathmandu, Lalitpur, Bhaktapur districts, Hetauda Municipality of Makawanpur and all the Terai districts; Rs 10,000 for all the hill districts where their headquarters have access to road transportation and Rs 12,000 for all the remote hill districts feasible for biogas installation.

problem for those people who own some cattle and land but still do not take part in the biogas programme. For most farmers, a biogas plant is still ‘very expensive’ and the subsidy is not sufficient.

All the users interviewed for this study said that they had benefited from the biogas plants and they thought their money had not been wasted. The prime reason for biogas installation was explained as scarcity of firewood which has made their daily lives very problematic. The immediate impacts at the household level felt by the users are easy cooking and smoke-free and healthier kitchens plus lighting. The female members of the household were pleased with the relief from a smoky environment. Easy cooking and replacement of firewood are felt to have saved time and reduced work oads considerably. The users were, however, of the opinion that the economic benefits from the plant could not be quantified as they consider biogas primarily a household service.

Current problems of the project are the excessive competition among the biogas companies, and the lack of clear government policy which has made this biogas programme not only donor-dependent but also donor-dictated. The third phase of the programme (1997–2002) aims to construct 100,000 new biogas plants in addition to the 22,000 plants already built.

Conclusion

As a donor intervention, the BSP is ranked by many Nepalese as one of the most successful, since biogas is certainly one of the most viable forms of alternative energy for a country like Nepal. However, biogas plants have not made a direct contribution to poverty reduction. The biogas users are relatively well-off rural farmers. The middle-class and richer families were found to have installed biogas plants for cooking and lighting purposes. Even with a subsidy the plants have not become affordable to the poorer sections of society.

Case No. 11. Participatory District Development Programme (PDDP)

The Participatory District Development Programme (PDDP) is a joint programme executed by the National Planning Commission (NPC) together with the Ministry of Local Development (MLD) and the United Nations Development Programme. The PDDP is currently being implemented in 20 districts of Nepal. The major thrust of the programme is in capacity building for the district development committees (DDCs) in order to equip them to take over managing participatory development efforts at the local level. The PDDP also aims to establish working links amongst district-level organisations, the private sector, women’s groups, community organisations, NGOs and governmental line agencies. At the central level, it helps the NPC and the MLD in their mission to assist local authorities in pursuing sustainable and decentralised local development. At the grassroots level, it helps villages by means of social mobilisation, participation, empowerment and self-government.

The programme has a vision of local institutions empowered with resources and skills for poverty reduction and sustainable development. The PDDP conceives of poverty as a form of social and political disempowerment and lack of access to the social bases of power and productive wealth. No indicators of poverty are used, however.

The PDDP has provided the services of UNDP-funded Planning Advisers (PAs) and teams of locally recruited Programme Officers (POs) to support the DDCs in participatory planning. The provision of such POs at district level is reported as helpful, but it has also put a burden on the poor DDCs as they are required to finance the salaries of these new officers. Under the present rules and regulations of the MLD and DDCs, co-ordination between the UNDP-funded planning advisers, local development officers (LDOs) employed by the MLD, line agency staff and political

representatives is very difficult. It was also evident during our field visits that there are problems related to the different status of the LDOs and PAs as ‘HMG’s civil servants’ and ‘donor employees’ respectively.

Despite these problems all Nepalese officials interviewed responded positively about the activities of the PDDP. The management and accounting support, computer training, fax machines and photocopiers as well as the development of districts’ information data bases and GIS-maps were reported as helpful for the DDCs, NGOs and other line agencies in drawing up development plans based on need-based analysis. This also discourages the ‘political pressures’ to implement development projects in inappropriate areas.

In each of the twenty districts under the PDDP two village development committees (VDCs) are selected to implement a village social mobilisation and development programme at the grassroots level with total ownership and participation of the local people. The institutional development component focuses on three things: a) organisation, b) capital, and c) skills. The economic component consists of credit capital and one-off seed grants to community organisations (COs) in productive sectors.

The other important objective of social mobilisation is to integrate the COs with the VDCs and DDCs, thus leading to bottom-up village and district development programmes. However, this aspect of the PDDP seems not to be taken seriously either by the local people or the social mobilisers of the VDCs. For them the slogan ‘Organisation, Capital and Skills’ is what the PDDP is all about.

In Kavre it was reported to us that the most important impact at the VDC level had been the enormous response from local people to the social mobilisation programme. There is promising participation of men and women, rich and poor and also from disadvantaged groups like Kami, Damai, Sarki, Prahari in the programme. Its impacts on people’s livelihoods and the poverty level have yet to be seen. However, all the CO members interviewed mentioned that the savings and credit activities had become very beneficial for them, especially for the poor. With their own group saving scheme, borrowing money for emergencies and other investments has become dependable and less costly. Savings capital had been invested in different income-generating activities in the villages.

Conclusion

The PDDP shows some promise of being able to contribute to the process of poverty reduction. There has been good participation by the local people. Now it remains to be seen whether the social mobilisation process of PDDP such a programme can be replicated in other VDCs on a sustainable basis. However, impact on people’s livelihoods and poverty has not so far been evident.

Case No. 12. PRODEC/FNCCI joint project

PRODEC, the Finnish agency for the promotion of Nepalese exports and FNCCI (Federation of Nepalese Chambers of Commerce and Industry) set up a joint project in 1993 to help Nepalese small and medium-scale export enterprises to enter European markets. The project is co-financed by the Swedish International Development Co-operation Agency (SIDA). Its major thrust is in practical and result-oriented training and consultancy services for small and medium-sized enterprises (SMEs). The Finnish Embassy in Kathmandu suggested that the project should be studied as one of the successful poverty-reducing interventions funded by Finland. The project

documents, however, do not indicate poverty reduction as an objective. Neither did the PRODEC representatives interviewed consider their project to be PR related.

Only selected private enterprises from the handicrafts and garments sectors are included in the project. The company must be 100% Nepali-owned, classified as a SME and have at least 3 years export experience. Most importantly, it should not use child labour or environmentally hazardous processes. Only competitive companies with a real potential for improvement are selected. These are provided with 'Training for Entrepreneurship Development' (TED) for two years on a module basis consisting of a series of integrated training and consultancy services depending upon the companies' needs. Geographically the project's activities are concentrated in the Kathmandu valley. An extension of activities outside the valley is said to be expensive.

During the first phase of the programme (March 1993 to June 1995) it provided training and consultancy services to 115 individuals from 34 companies and 10 non-profit organisations. Of these, 16 companies promoted their products in various European markets in 1994. Immediate sales resulting from this were reported as amounting to \$90,000. Other achievements included the company managers' better understanding of the EU market structure and requirements as well as their ability to look independently for market and product information. According to a PRODEC Bulletin the trained managers valued highly their increased self-confidence in dealing with buyers.

The beneficiaries interviewed valued the project's training components and consultancy services which are designed to meet the needs and development priorities of the participating companies. PRODEC support has resulted in product diversification and improved quality and enhanced the companies' competitiveness on domestic and international markets. The market research conducted in Europe has increased the companies' market networks there and helped them to increase their exports.

Poverty issues are not addressed by the project nor does it have a mandate for such social aspects. However, its present target sectors are the garment and handicraft industries which provide employment for thousands of people, many of whom are from the poor sections of society. Employment generation is a major government strategy for poverty reduction in Nepal. Lack of access to the international market has been one of the major constraints on SMEs in Nepal. In view of this, PRODEC's effort to promote Nepalese products in the EU market could prove very significant, despite the fact that it covers only a few selected companies.

The project's approach to discouraging the use of child labour and creating a healthy working environment for workers contributes to alleviating poverty and its consequences. Poor working conditions and low wages are pervasive problems associated with the Nepalese industrial sector and in need of regulatory intervention. The project helps to create public awareness of such issues.

Conclusion

The project's work with Nepalese exporters is valued by most beneficiaries. Its contribution in export promotion and management development helps the participating companies to grow, and will eventually lead to expanded employment. Its advocacy of child labour-free companies and improved working conditions, and its activities in skill development help to fight poverty-related abuse of labour in the Nepalese garment and handicraft industries. However the project is not a poverty-oriented donor intervention, though it may contribute indirectly to alleviating poverty.

5. Nepalese Perceptions of European Donors' Approaches to and Effectiveness in Poverty Reduction¹³

5.1 Approach

A group of 28 experienced current and past policy-makers and planners, politicians, media people, academics, people associated with civil society organisations, and beneficiaries were interviewed for their views as regards poverty and policies in Nepal and the way foreign, especially European, donors deal with them. Among the interviewees were: 6 senior government officials (Ministry of Finance, National Planning Commission, Ministry of Foreign Affairs, Ministry of Local Development); 6 academics/intellectuals (1 anthropologist, 1 sociologist, 4 economists); 4 top journalists; 3 NGO directors (Nepalese NGOs) and 4 politicians (Communist party, Congress party, RPP party).

5.2 Poverty Agenda: Escalation or Reduction?

4.1

Three main schools of thought have emerged regarding the evolution of the poverty agenda in Nepal during the past five decades, namely: (i) some respondents belonging to all categories believe that there has never been any poverty focus on the part of either the government or donors; (ii) some respondents from all categories believe that whatever has been done in the past five decades by the government and donors can be related to a poverty agenda one way or another; and (iii) a few respondents believe that the poverty focus has been evolving gradually from *indirect* to *direct* concern with the poor.

When did the poverty agenda originate in Nepal? The answers are varied. Historically, 'poverty' and other numerous 'modern' agenda items, including democracy, development and human rights, are of Western origin, imported into Nepal since the 1950s. Poverty existed in Nepal before 1950, of course, but its nature, attributes, magnitude, and causes were different from what we have seen since then. From 1768, the time of the political 'unification' of Nepal, to 1950, the end of the 104 years of autocratic Rana rule, poverty was a part of Nepalese life manifested in terms of feudal relationships, injustice, and untouchability. Poverty as a sectoral issue, however, entered Nepal in the early 1950s as part of the international 'aid business'.

The reasons for the failure of the previous poverty programmes identified by the participants in a national seminar on 'Poverty Alleviation and Human Development in Nepal' (NPC / UNDP / WB, 1992:iii-iv) include poor targeting design, bypassing of vulnerable groups, inadequate participation of the poor, neglect of socio-economic and local potential, too much experimentation, politicisation, and lack of transparency. There has been hardly any success in reducing poverty in Nepal in the last five decades of planned development (Khadka 1991:399; Banskota and Sharma 1996:5).

¹³ This section is largely based on Battachan (1997).

5.3 Donors' Interests: Commercial and/or Political Gratification or Poverty Reduction?

Many respondents pointed out that, among the donors, Japan has the strongest commercial interests; it gives mostly commodity aid to Nepal. Most donors, including Europeans, are always more interested to provide aid to **large-scale** projects, such as hydropower plants and telecommunications system with the motive of 'using' high-tech commodities manufactured in their own countries. Certain donors have specific commercial interests as well. For example, **Denmark** and the **UK** are interested in trade, whereas **Finland** is interested in using its own consultants.

The key commercial interests of donors mentioned by most of our respondents included the following:

- to insist on technology, equipment, and technical experts/professionals provided by the donor's own country because donors want to provide employment for their own people
- giving contracts to companies or firms from the donor's own country; most foreign companies have their local partners and commission agents in Nepal;
- a more recent development is that donors go first to India to prepare their market and then return to Nepal to take the advantage of it.¹⁴

Many of the informants were convinced that such commercial interests either make the donors uninterested in any kind of poverty reduction or tempt them to use even poverty-focused projects as springboards to achieve commercial targets.

Since the end of the Cold War, most donors no longer have geo-political concerns. When compared with the Americans, European donors do not have very strong political interests. Among European donors, the **UK** and **Germany** are seen to have more political interests. A few respondents who belong to advocacy groups and political parties considered that **Denmark** is used as a surrogate by the US to push its political agenda in Nepal.¹⁵

Some informants emphasised that the politically interested donors had been instrumental in the success of the people's movement of 1990 in installing the multiparty electoral system in Nepal. Donors played their part by refusing to co-operate with the 30-year-old autocratic Panchayat system. Since then, all donors have shown a keen interest in strengthening democracy in Nepal. Some respondents regard this as a positive political interest in favour of Nepal. Some respondents suspect political motives when donors put pressure on HMG/N to demonstrate its efficiency and efficacy. European donors' main political interests are believed to include the following:

- to bring the Nepalese economy into the process of commercialisation, **globalisation**, privatisation, and liberalisation
- to bring long-term political **stability** to Nepal through the promotion of democracy and democratic institutions by providing the necessary support as well as the promotion of human rights and good governance
- European donors and the US would **not** wish to see a less 'bourgeois parliament' and a more radical left-wing group or communists in the ascendant, in other words, aid is used to stop

¹⁴ It was said that this was why donors were not interested in developing hydropower projects in Nepal while India operated protectionist policies for trade; now they are interested in them because India has opened up a bit.

¹⁵ Reference was made to a fund called the National Endowment for Democracy set up by the US government.

communism by promoting anti-communism. All European aid is tied up indirectly with anti-China or pro-Tibet and **anti-communist** factors

- respondents, particularly intellectuals, journalists and politicians, have a perception that many donors are promoting **Christianity** in Nepal. A few of them mentioned that donors in general, and INGOs in particular, have a different genre of hidden political interests, namely, is propagate Christianity on the basis of freedom of conscience and link it with aid
- respondents from advocacy / NGO groups, journalists and intellectuals mentioned that the US interest in Nepal often depends on the intensity of conflict between **India and China** and the degree of communism. This is not the case with the Europeans. The **UK**, with its long-standing interest in India, appears to consider Nepal within the sphere of Indian politics in particular and South Asian politics in general. It has recently started to look at Nepal with an Indian eye due to its interest in the Indian market
- European donors want to see pro-West voting by Nepal in **the UN** and a pro-Europe as well as pro-American stance on all international issues

Some respondents felt that it was beneficial that donors had political interests in Nepal. Sikkim was annexed to India partly because of the absence of donors.

5.4 Conditionalities: Market-based or Poverty-based?

4.2

Not all the informants had empirically-based knowledge of, and information about, all or most of the European donors. They were therefore not in a position to make comparative judgements about various donors or to rank them. Instead, they provided information based on the donor(s) they knew best. HMG/N officials declined to rank donors or to make value judgements about their seriousness or effectiveness. However, some respondents perceived that the UK, France, and the SNV (the Dutch 'governmental' NGO) generally attach the most rigorous conditions and that FINNIDA and DANIDA, as well as the large Swiss NGO, Helvetas and the German governmental GTZ, attach the fewest.

So far, Nepal has experienced three types of conditionalities: stabilisation; structural adjustment (SAPs) and good governance and human rights. Most respondents criticised the conditionalities attached to donor assistance in terms not of the general intentions of expected policy shifts but of administrative and management difficulties. There was a consensus among the respondents that it would be good for all if there were some **poverty reduction**-related conditionalities, but there are none.

5.5 European Donors' Poverty Focus and Strategies: Recycling or Innovation?

Most interviewees believed that no European donors had had, seemed to have, any clear plans to establish a serious concern for poverty alleviation or reduction in Nepal. In the past, most of their aid focused on building infrastructure and industrial organisations. Poverty reduction was a secondary issue. Integrated rural development programmes tried, to some extent, to address poverty issues but they were not effectively implemented because of their complexity and inadequate co-ordination among the various line agencies of HMG/N.

In our interviews, Nepalese intellectuals expressed their concern about the dominant belief, among HMG/N and the donors, that *'since the market is right, there is nothing to be done for poverty reduction.'*, and according to our interviewees, such an attitude signals a complete lack of understanding of the nature and attributes of poverty in Nepal. In the past both donors and HMG/N

have tried out growth with trickle-down effects on the poor and growth with equity. They have yet to come up with a pro-poor strategy.

Conceptually, their emphasis has correctly been on poverty reduction, along with gender and environmental issues, but the problem lies in translating such theoretical objectives into a tangible programme. The Europeans have not done enough about it. An example quoted to us was the Dutch **SNV**'s support for the Karnali Local Development Project (KLDP), implemented in one of the most remote and underprivileged areas in the mid-western part of Nepal. The project looks excellent on paper, but the programme design does not guarantee that the poor will benefit from it. Construction of infrastructure has not helped the poor. Furthermore, the **SNV** has supported irrigation projects in eastern Nepal with the objective of benefiting the poor, but in practice only the rich farmers have benefited. Thus, **SNV** was an example of an organisation that makes respectable efforts to do something for poverty alleviation but whose working modalities are weak in terms of this objective. In such examples our informants saw the contradictions between what donors say and what they actually do (or do not do) for the poor.

Recently, European donors in Nepal have begun to put increasing emphasis on human resource development, decentralisation and participatory approaches, social mobilisation, rural credit and savings, all of which are believed to benefit the poor. The credibility of these positive intentions seems low, however, in the eyes of our Nepalese informants, since they find it unrealistic to separate such smart catchwords from the larger World Bank package, including the macroeconomic Structural Adjustment Programme (SAP) and the ideology of liberalisation. Compared with today, donors appear to have been relatively more poverty-focused back in the 1970s when they undertook Integrated Rural Development Programmes.

Our informants were of the opinion that the INGOs, particularly **the United Mission to Nepal**¹⁶ and **CARE**, have very effective strategies for poverty reduction. They are a step ahead compared with the European donors (bi- and multilateral) in doing things correctly. They have a very good understanding of the social structure as well as the political, economic, and cultural realities of Nepal. The UMN has gained a reputation for benefiting the poor because of its dedicated and highly qualified professional expatriate and Nepalese staff.

From among the European donors most of our informants picked out the German **GTZ**, the Swiss **Helevetas**¹⁷ and **DANIDA** as donors with relatively effective strategies for poverty reduction. They mostly focus on capacity building at the local level through organisations owned by the poor, and take a holistic approach. For example, the GTZ has promoted and supported the Small Farmers Development Programme (SFDP)/Small Farmers Co-operative Limited (SFCL) *Swabalamban* (self-reliance), self-help banking and institutional development at the grassroots level and the Production Credit for Rural Women (PCRW) programmes targeted at benefiting the poor. The substantial contributions to these programmes have, however, come more from the Nepalese staff than from the Germans, but the way the latter have created space for the local staff to take action was highly valued by many of our respondents. Also, their emphasis on small-scale entrepreneurship has helped to generate employment opportunities.

It appears that donors which work in partnership with NGOs generally focus more on poverty alleviation. Both GTZ and Helevetas are examples of this. The European Commission is the

¹⁶ The UMN is a partnership of 39 Christian missionary (and other) organisations from 16 countries working in Nepal since 1954.

¹⁷ Helvetas is actually a Swiss NGO, but many Nepalese regard it as the official Swiss development agency in Nepal, since it has been active for over 40 years and has a very large and highly respected programme. The official Swiss governmental development agency, SDC (formerly SATA), has a much lower profile.

absolute opposite: it has neither any partner NGOs nor any poverty focus in Nepal. DANIDA, like GTZ and Helevetas, focuses on building organisations of the poor following a holistic approach by mixing infrastructure development with community development activities and organisational development.

Both European and non-European donors have some ‘flag-ship programmes’, which they use repeatedly in their information work. There is no doubt that some donors, including the Germans, the Swiss, and UNDP, have had success stories in some villages or areas but there has been hardly any story about successful **replication** of such programmes nation-wide.

Among European donors, **France**, and the **UK** generally did not focus on poverty reduction in the past. The British concentrated on building roads for the benefit of their Gurkha soldiers. Some Nepalese, however, appreciate the British concern for poverty reduction. For example, in Lumle (Western Nepal) and in Pakhribas (Eastern Nepal) they have supported agricultural research and development centres which may in the long run contribute to poverty reduction through the transfer of technology.

The donors and HMG/N were seen to differ in several areas: HMG/N treats poverty in a uni-dimensional way whereas the donors treat it as multi-dimensional. Donors give priority to gender issues, the environment, democracy, and human rights but HMG/N has no such priorities. Some informants saw HMG/N as in effect trapped between two worlds far apart from each other: were the ruling political party to follow the standard economic policy prescriptions of the globalising world, it would run the risk of losing the next elections at home.

Our informants believed that the donors have more confidence in the capacity of NGOs (rather than HMG/N) to solve most of the problems. HMG/N tries to advise donors to be highly selective with NGOs as their competence, efficiency, and organisational capacities may be quite limited.

5.6 Methods Used by Donors: Trick or Treat?

4.3

It is widely believed that donor personnel use a variety of ‘tricks’ to serve their commercial and political interests. All these perceptions are difficult to verify but most Nepalese interviewees had heard such things a number of times. The following ‘dubious tricks’ were mentioned by one or several of our respondents.

- Donors exploit personal rapport with HMG/N officials and generally enjoy surprisingly easy access to the highest government officials
- Donors have their ‘blue-eyed boys’ or ‘favourites’ in the ministries. They co-opt HMG/N officials by making them members of certain committees, and provide incentives, including high meeting fees
- Though illegal, many donors give consultancy work to high-ranking government officials, or ex-consultancy firms with close links with government officials
- Donors provide scholarships or study trips to relevant HMG/N officials and their family members and relatives
- Donor personnel usually rent houses owned by influential government officials
- Donors rent cars from high officials by paying as much as Rs.50,000.0 per month (US\$ 1.000), i.e. 10 times the salary of such officials
- Donors contact higher officials directly if lower officials are resistant to their demands. Also, if donors do not get along with junior staff, they go directly to higher officials without following the due process, and exert pressure to get things done
- If HMG/N does not support the donor, it can manufacture a ‘crisis’

- Donors establish inappropriate conditionality links¹⁸
- The underlying assumption in most negotiations is of the superiority of Western norms, values, culture, and religion (Christianity).

Most of these tricks are used frequently if the programme or project originated with suppliers from the donor country. What is damaging and objectionable to the Nepalese people about such ‘tricks’ is that the donors themselves follow their own rules and regulations to get things done but blame the Nepalese culture when things go wrong.

5.7 Sincerity and Seriousness of a Donor’s Poverty Agenda: Virtual or Real?

4.4

Certain interesting views emerged about the relative merits of various **approaches** to poverty focused assistance.

Among European donors DANIDA, GTZ, and Helvetas are considered to have a relatively better poverty focus because of their proper targeting and emphasis on institutional capacity building, group mobilisation, micro-credit components, flexible approach, and multiple interventions. DANIDA also has programmes on women’s rights and for the poor, while Helvetas concentrates its activities on the most underprivileged areas with a participatory self-help approach. They are seen to have learned from past experience how to improve their approach and they have a good understanding of the situation in the field.

Almost all donors have specially preferred geographical areas in which to implement their projects, mostly in the rural areas where they may do useful things which remain barely visible to the general Nepalese public and the rest of the donor community. They also have preferences for sectors in which they specialise. For example, UNDP emphasises pro-poor employment generation, the environment, and women. Some informants ranked Finnida as least attuned to poverty reduction among the European donors. The Finns are seen to have concentrated their activities in drinking water and commercial forestry projects which have very little to do with poverty reduction. Yet, according to the case study (Bhattarai et al., 1997) conducted for this research, local people in the Lumbini zone, where the Finnida-supported water supply project takes place, ranked the Finnish-funded intervention very high in terms of its achievements in poverty reduction.¹⁹

Following the introduction of greater democracy in 1990, donors have shown increasing sensitivity towards the various perceptions, aspects and manifestations of poverty that are specific to the different minorities and traditionally untouchable groups in Nepal. During the 30 years of the Panchayat regime, no donor was encouraged or even permitted to work directly with such groups. Although the democratic constitution promulgated in 1990 accepts Nepal as a **multi-caste, multi-ethnic, multi-linguistic and multi-cultural** country, the government has seldom encouraged donors to plan, design and implement programmes or projects directly targeting the indigenous ethnic or traditional untouchable caste groups. It seems to have realised that it is anti-poor to prevent donors

¹⁸ An example, Finnida threatened to pull out all its aid to the forestry sector in Nepal, unless HMG/N endorsed a Finnish plan to hand over management of some valuable forests in Bara district to a private joint venture of Finnish and Nepalese companies.

¹⁹ The Finnish Government representatives in Kathmandu have tried energetically but not very successfully to convince the Nepalese authorities and the wider public of the great potentials of commercial forestry on the Terai as an instrument of national economic development and – through various kinds of trickle-down effects – poverty reduction.

from helping such disadvantaged groups and has suggested that they should direct their support to remote areas if possible, though it is well aware that this would also imply increasing numbers of programmes or projects targeted to ethnic groups and the untouchables. Recently it has agreed a pro-untouchable group policy for NGO activities. Among donors, CARE-Nepal, UMN, ACTIONAID, and DANIDA have developed specific strategies for reaching the traditional low-caste and most underprivileged ethnic groups.

4.55.8 General Patterns of Donor-recipient Relationship: Patron-Client or Partners?

Our respondents had the following opinions about the government's relationships with European donors:

- Nepal has been donor-dependent for more than four decades and the pattern does not seem to change. HMG/N takes all grants, even loans, as a 'free lunch' without giving much thought to their effective utilisation. Donors come up with their own project proposals and HMG/N accepts most of these proposals without much serious discussion. Irrespective of the political party/parties in power, the government regards ever increasing foreign aid as something sacred, uplifting, and liberating for the Nepalese people. It tends to accept any kind of aid and as much of it as possible. In the past, everything used to come from the donors, but now the process is more interactive. Nevertheless, although the donors have developed intensive consultation with the Nepalese side, aid is still donor-driven.
- There is a growing trend of competition among donors to work in the same sector or area. Each donor tends to construct its own programme / project islands and colonise them in perpetuation, regardless of actual needs and demand. Donors usually do not want to leave the area and the people they have worked with and they may go as far as reinventing the wheel in their programmes or projects as soon as they approach the termination phase.
- Donors tend to change the local society to make it more receptive to Western norms, values, culture, and religion
- Another pattern of donor-recipient interchange is 'collusion', i.e. the officials of both donors and HMG/N represent their respective establishments but not the intended / stated beneficiaries. The pattern is different in the case of INGOs; they have more direct contact with the beneficiaries
- European donors are increasingly using NGOs as channels for their money. HMG/N has loosened its control of foreign aid considerably as compared with the past
- Since the early 1990s the World Bank's lending priority has shifted from infrastructure development to focus on the social sectors. HMG/N, however, prefers not to take loans for the social sectors because of the long-term pay-off. If Nepal does not shift its policy in accordance with the policy shifts of the donors there will be problems.
- Both donors and HMG/N have realised that the Nepalese side should actively participate and articulate problems and priorities, and also take the lead in the co-ordination of projects. The frequent turn around of HMG/N officials and the lack of political neutrality among Nepalese bureaucrats worry donors.

- Usually, HMG/N yields to donor pressure although occasionally it tries to resist. For example, when the donors have suggested that state subsidies should be reduced or that prices should be raised HMG/N has resisted. When HMG/N fails to persuade the donors, the bureaucrats simply try to delay the process. However, the donors have the upper hand; HMG/N has to yield sooner or later. In projects the situation is the opposite: the donors want autonomy for their projects but HMG/N wants to control them
- Donors often repackage their programmes / projects in case of failure. They are locked into a system where they have difficulty in saying what went wrong with their past failed programmes / projects.

There was a consensus among our respondents that Nepal has so far been unable to use foreign aid properly to benefit the majority of its poor people.

4.65.9 Nature of the HMG/N – Donor Dialogue on Poverty Reduction: Monologue or Dialogue?

4.7

Our respondents felt that, among the European donors, it was the Nordic countries and Germany that allow more room for discussion and dialogue with their Nepalese counterparts. They also try to understand and incorporate Nepalese points of view. All donors apply the rituals of discussion and negotiation but often the discussions are used only to legitimise and not to change the donors' pre-conceived ideas.

All donors attach special importance to updated financial reporting. Yet none, except agencies such as the World Bank, show any interest in Nepal's general economic situation. None show any interest in the *impact* of their aid on the poorest people. All donors, but the Nordic countries more than the others, give emphasis to the interventions' impact on the position of women.

HMG/N has tried to discourage donors from launching aid programmes or projects targeted only on particular ethnic or low-caste groups. It is aware, however, that a growing number of donors are showing interest in helping low-caste and indigenous ethnic groups in various ways. The European Commission shows a special interest in human rights issues. The Swiss are more concerned about the results and impact of their aid than many other donors. The Nordic countries give serious consideration to the objectives of projects but other donors show such interest only rhetorically. Corruption is an issue accepted by all donors. Our informants found it interesting that most donors have recently indicated their simultaneous special interest in the education of girl children. The GTZ pays more attention than other donors to issues such as the institutional settings of projects and counterpart funding.

Usually, senior officials of the Nepalese Finance Ministry and members of the National Planning Commission are involved in most of the rituals of aid negotiations: such as policy dialogue (both economic and sectoral), project proposals, project appraisals, country programme negotiations, financing arrangements, donors' missions, and project evaluations. The representatives of the relevant line ministries of HMG/N, such as the Local Development and Education Ministries get involved only in sectoral policy dialogue, project proposals, project implementation, and evaluations. Foreign Ministry officials play almost no part in these processes.

For the Nepalese authorities, negotiations on sectoral programmes are the most interesting and helpful. This is due to the clarity of the situation for both parties involved on what to do and how to

do it. They find it inspiring if policy and programme dialogue opens up new opportunities, and ideas. Among donors, the Germans, UNDP, the Asian Development Bank, DANIDA, Helvetas, and some new donors were identified by our informants as partners with very useful and meaningful negotiating procedures. They listen to and try to understand Nepal's concerns and problems, they are willing to be flexible, and some of them have developed a concept of partnership.

4.8

4.9

4.10 5.10 Who are the Owners of the Donor-Funded Programmes/Projects: Donors or Receivers?

4.11

Nepalese ownership of donor-funded programmes, projects and activities was not a concern in the past. Recently, all donors have started to emphasise its importance, at least theoretically though less so in practice. The gap between the rhetoric and the reality is partly explained by HMG/N's aid dependency syndrome and the lack of institutional mechanisms to mobilise Nepalese policy experts at the key policy centres, such as the National Planning Commission, the Finance Ministry, the Foreign Ministry and the planning cells of other line ministries.

Generally, donors formally 'own' the projects until they hand them over to the Nepalese government. Often, the projects are identified by the Nepalese people by the names of the respective donors. For example, the people call a German-funded road 'the German road', not 'the Nepalese road', and the drinking water project supported by Finnida is 'the Finnish water project'. This clearly indicates that the Nepalese people have not developed a strong sense of ownership of the projects.

Our respondents were of the opinion that the feeling of Nepalese ownership is relatively better in the **GTZ**-sponsored projects than in those supported by other European donors. Donors who have their own offices in the field are firmly 'in the driver's seat'. For example **DANIDA** and **Finnida** have their own 'empires'. Donors like the **GTZ** and **Helvetas** usually work with the local community and therefore have less say in their projects. Our informants felt that, if Nepalese ownership is to be realised, HMG/N should initiate the projects, carry out the feasibility studies, prepare the documents, get involved in the project designs, and involve people in their implementation. Officials of the Finance Ministry play some role at the policy level at the moment as well as line ministries in technical aspects during feasibility studies.

A sense of ownership is critical for the success of any project. The interviewees felt that the question of Nepalese ownership can be best addressed by adopting a process approach as against the prevailing project approach. Some Nepalese believe that the donors are forced to occupy the driver's seat because of the political instability and poor trustworthiness of the Nepalese bureaucracy. Also, if the Nepalese vision of poverty reduction were clear and donors were invited to help, then the ownership would be retained with Nepal.

Our respondents felt that the donors are always in the driver's seat but the vehicles are not always heading in the right direction. Expatriates have too dominant a role. Nepalese staff act like 'yes-men' in most donor-driven projects. They have to listen to their expatriate bosses. Their role in the project is insignificant and of a subsidiary nature. Most of the co-opted Nepalese staff tend to adopt the donors' attitude.

Recently, donors have mobilised NGOs in the delivery of services. Most of the NGOs are handed projects in the name of the beneficiaries but often the aid fails to reach the latter because of leakages within the organisations. Most NGOs are dependent on donors, and they often promote their own interests. NGOs identify themselves as advocacy groups but the donors have transformed them into service delivery institutions. Donors prefer NGOs because they are much easier to work with and faster in delivering services (than HMG/N), and also because they can fly under the legal radar of the government. Some NGOs have been very successful indeed. They can reach out to places where HMG/N has been unable to do so. But there are also many dishonest NGOs. Some sell their expertise and misuse the aid money for their personal gain, while others are politically connected.

One of the weaknesses of all donor-driven projects is the minimal participation of the intended beneficiaries from the outset. Often projects are conceived, planned, designed, and approved without any beneficiary participation. It is only in the implementation phase that some representatives of the beneficiaries participate, but the actual beneficiaries may not be involved at all. The level of beneficiary participation largely depends on the nature of the project itself. For example, community members are intensively involved in drinking water projects.

4.12 5.11 Donor to Donor Co-ordination: Sibling Rivalry or Sharing and Caring?

4.13

Donor-donor co-ordination is good for the donors and good for Nepal, and it should be good for the poor as well. There are three levels of donor-to-donor co-ordination: the Paris Aid Group; local donors' meetings; and sectoral donors' meetings.

Some of our interviewees felt that donors often behave in co-ordination meetings like competitors in the marketplace. Each agency thinks that its approach is better than those of others, and instead of learning from each other's experience the donors like to promote and sell their own approaches or models, largely to demonstrate the distinctiveness of their priorities and methods. They often talk a great deal and share information, but co-ordinate less because of intense donor rivalry. If donors' interests clash, they do not communicate. Also, they never share their weaknesses with other donors. European donors have increased their co-ordination in Europe but co-ordination at the country level remains to be seen. The existing Nepal Aid Group and sectoral aid groups meet occasionally and formally.

Some Nepalese respondents believe that HMG/N ought to take the lead in donor co-ordination but that its rent-seeking behaviour has prevented it from doing so. Up to now, HMG/N has not invited the donor community to talk about poverty issues because it is not clear about them itself. The lack of co-ordination has its effects on pro-poor policy reforms and projects. Examples given by our respondents were as follows:

- mistakes by one donor may be replicated by another because of failure to share experience
- if the IRDPs of the past can be taken as a guide, duplication of work is highly likely in such situations
- if one donor declines to finance a dubious activity proposed by HMG/N, another might be persuaded to take it on if there is an absence of co-ordination

Many of our respondents considered that neither the World Bank nor the UNDP should co-ordinate donors. On the other hand, several informants were of the opinion that the UNDP, being a neutral

agency with world-wide experience and permanent establishment, is better able to co-ordinate than the World Bank, for example.

So far none of the donors has been prepared to allow the Nepalese to take the lead. Some interviewees thought, however, that the UNDP, GTZ and Helvetas were the most willing to allow them to do so. These donors have pro-poverty alleviation programmes with an emphasis on sustainability, and the participation of local people, including their ownership and management. In UNDP many staff are Nepalese professionals, and in GTZ, many project team leaders and members. Some interviewees argued that the National Planning Commission should co-ordinate at the national level and the District Development Committees (DDCs) at the local level.

5.12 What the Donors Should Do for Poverty Reduction?

Nepalese-policy makers, planners, academics, politicians, media professionals, and beneficiaries interviewed for this study had the following suggestions for donors who are seriously committed to poverty reduction in Nepal:

- Do not push too hard on the agenda of liberalisation, commercialisation, privatisation, globalisation, and homogenisation; contextualise or customise it.
- Both donors and HMG/N should come up with very clear, focused, and mutually agreed concepts, targets, approaches and strategies for poverty reduction and intensify the dialogue immediately in this direction.
- Be sensitive to the historical, political, social, and cultural factors and structures that reproduce poverty in Nepal.
- Both donors and HMG/N should design PR programmes addressed specifically to (a) women, (b) indigenous ethnic groups or nationalities, (c) traditionally untouchable caste groups and (d) low-caste groups.
- Go directly to the targeted beneficiaries at the local level and support the capacity building of local institutions – indigenous or traditional; trust the capability of the local people and act catalytically; project offices should not be located anywhere in urban areas.
- Show long-term commitment by supporting the goals and objectives of poverty reduction set by HMG/N.
- Support should be for the long term, that is for at least 20 years.
- Generate all the required information about poverty in Nepal and develop strategies accordingly.
- Be fully transparent.
- Donors should do the following things to reduce or eliminate their commercial interests:
 - allow Nepal to buy and import goods from the cheapest sources through competitive bidding;
 - comply with the World Trade Organization regime and the guidelines provided by OECD and Transparency International;
 - fulfil their commitments made for example, both HMG/N and donors have not fulfilled their commitments on the 20–20 compact;
 - allow Nepal to choose Nepalese consultants; a large number of internationally trained and equally competent Nepalese professionals and experts are already available in the country.
- Nepal should have the capacity to ‘bargain’ and be bold enough to say ‘no’ to any aid or conditions that serve(s) the commercial interests of the donors but not of Nepal. However, it is very difficult for the Nepalese to say no!

It was suggested by planners and academics among our respondents that **poverty-related conditionalities** should be seriously considered:

- Each programme or project must have clear and strict guidelines about the intended target groups or beneficiaries. These should be: low-caste groups, indigenous minority groups, women; and other disadvantaged groups
- The targeted beneficiaries should own the programme/projects
- Local resources should be mobilised optimally
- Donors should hire Nepalese – preferably local – professionals and staff only. Locally based, not Kathmandu-based, NGOs and indigenous or traditional organisations / associations should be involved as well as locally elected government bodies, particularly the Village Development Committees (VDCs)
- The programmes and projects should promote sustainable technology.
- All programmes and projects should focus on local capacity building.

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Annex 1

| 1 Nepal Project Portfolio – European Community | | | | |
|--|-------------------------------|--|---------------------------|--|
| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 ECU</i> | <i>Project Period</i> | <i>Short Description</i> |
| Reproductive Health Services | III | 920 | 1995– | The objectives are to improve accessibility and delivery of and to strengthen local partners' capacities to ensure long-term sustainability. |
| Bardia Buffer Zone Development Project | II | 1,351,351 (EU 826,351; Care Nepal, Care Denmark, DANIDA 308,820) | 1997–9 | To improve the socio-economic security of participating communities in the buffer zone in a manner which safeguards the existing resources of the Royal Bardia National Park. Local communities living in the buffer zone will be involved in park management and their livelihoods improved through sustainable agriculture and other inputs. |
| Bagmati Watershed Management (Phase I) | II | 5,460 | 1985–97 | To improve land use and management in the Bagmati river basin to reduce soil erosion and water run-off. |
| Bagmati Integrated Watershed Management Programme (BIWMP) (Phase II) | II | 15,000 | 1997–2002 | To improve land use and management in the Bagmati river basin to reduce soil erosion and water run-off and to increase land productivity. In view of the trend of watershed degradation and deterioration of the environment, the programme should be a continuation of the successful ongoing programme. It would cover the entire Bagmati Basin through an integrated approach incorporating three sub-watershed projects. |
| Gulmi – Arghakhanci Rural Development Project (GARDP) Phase II | II | 17,750 | 1996–2001 | To improve the capacity of local people to plan, fund and manage their own development to their benefit to themselves and to strengthen the ability of the local people to carry out such efforts. |

Annex 1 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 ECU</i> | <i>Project Period</i> | <i>Short Description</i> |
|--|-------------------------------|----------------------------|---------------------------|--|
| Strengthening of Veterinary Services for Livestock Disease Control | III | 8,700 | 1996–2001 | To strengthen the Nepalese veterinary services in order to promote rinderpest eradication, the reduction of other animal diseases and the incorporation of national veterinary actions against rinderpest in a co-ordination programme |
| Greater Kathmandu Valley Mapping | IV | 5,600 | 1997–2001 | To increase the capabilities of the Kathmandu Municipal Corporation in a comprehensive process of urban control, to design and implement a plan to benefit the population in general and vulnerable groups, by preparing an Actions Plan, preparing and implementing digital mapping and GIS systems and urban management. |
| Irrigation Development Project Mid–Western Region (IDP–MWR) | III | 8,100 | 1997–2002 | To develop appropriate institutions and implementation procedures for the IDP and to construct or rehabilitate irrigation schemes covering the IDP area in the framework of the new HMGN policy, mainly focused on community participation |

Annex 2

| 2 Nepal Project Portfolio – DFID (UK) | | | | |
|--|-------------------------------|--------------------------|---------------------------|---|
| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 £</i> | <i>Project Period</i> | <i>Short Description</i> |
| Road Maintenance Project (RMP) | IV | 9,600 | 1994–9 | The main objectives of the project are to ensure that: main roads are in good condition for road maintenance; road maintenance is planned and carried out effectively by the DoR with consultants; road maintenance is carried out efficiently by the DoR with contractors; and that roads are constructed and maintained with pedestrian / vehicle safety in mind. |
| Maintenance and Rehabilitation Coordination Unit Phase II | IV | 650 | 1996–8 | To improve the Department of Roads' management of the roads network. |
| Eastern Region Road Maintenance Phase 2 | IV | 9,300 | 1996–2001 | Continued maintenance of the Dharan-Dhankuta-Hile road; East-West Highway (0-50 Km); improved efficiency of road maintenance; improved strategic road network in the Eastern Region of Nepal. |
| Assistance to Central Department of Population Studies, Tribhuvan University | II | 211.4 | 1994–7 | The objective of the project is to develop a cadre of trained population planners who will improve population planning and contribute to the understanding of the determinants of fertility in Nepal and help reduce unwanted fertility and the total fertility rate of Nepal. |
| Eastern Region Primary Health Care Project (ERPHC) | III | 1,242 | 1993–7 | This is the second phase of a project which started in December 1993. It is designed to strengthen management of the primary health care system in the Eastern Region of Nepal. It will increase the management capacity of public health offices, develop capacity at the district level for health management, enable the Regional Health Directorate to provide effective health management, enhance gender awareness in health management and service delivery, and encourage NGOs to complement the provision of government health services. |
| Safer Motherhood | II | 3,632 | 1997–2003 | Support to HMG/N's Safe Motherhood Programme in 10 pilot districts. Activities likely to include: district hospital renovation works; renovation of staff quarters; purchase and supply of drugs / equipment; training of staff (via Nepal Red Cross); research; policy discussions with HMG/N; support to NGOs / CBOs to build up awareness; create demand for services; improve referral systems. |

Annex 2 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 £</i> | <i>Project Period</i> | <i>Short Description</i> |
|--|-------------------------------|--------------------------|---------------------------|--|
| Nepal District Health Strengthening | III | 1,980 | 1997–2000 | Contribution of management training / support to a few districts in the Western Region. Project is also likely to work at community level. |
| Budhanilkantha School | IV | 296 | 1995–7 | Staff development fund; books / equipment; scholarships |
| Community Literacy | IV | 1,900 | 1997–2002 | This project is designed to promote the use of literacy in Nepal. It will increase the capacity of local NGOs to help maintain literacy programmes who would otherwise be expected to lose it; encourage community-based organisations to use clearer and more accessible written materials; and use a local NGO as a focal point for the further development of literacy. |
| Secondary Education Project (SEP) | IV | 2,795 | 1994–8 | The project provides parallel financing within the framework of the World Bank – sponsored Secondary Education Project (SEDP). The main objective of the SEDP is to improve the efficiency of secondary education in Nepal, i.e. from Grades 7 to 12, thereby to support the government's objective to produce more graduates for the economy and qualified entrants into tertiary education. The SEDP, to run for six years from mid-1993, will be some 60% financed by an ADB loan will be for about £ 6 m.; and the HMG/N contribution will be about £ 4 m. |
| Rural Water Supplies (Gurkha Welfare Trust) Phase II | II | 1,884 | 1995–2000 | The project will provide adequate supplies of clean water for drinking, to the equivalent of about 100 hill villages. Present water supplies are at present inadequate or unsafe. |

Annex 2 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 £</i> | <i>Project Period</i> | <i>Short Description</i> |
|---|-------------------------------|--------------------------|---------------------------|---|
| Community Forestry Project (NUKCFP) | II | 6,610 | 1993–8 | <p>The project supports the development of community and private forests in the Koshi Hills of Nepal, and HMG/N's sectoral policy of transferring forest management from state to community management and utilisation. The twin aims are to meet the forest product needs of hill communities on a sustainable basis and to foster the participation of local communities in the process.</p> <p>The project will test approaches to community forestry. The following components are planned: the development of a community forestry unit within the Department of Forests (DoF) centred on developing community forestry systems and 'reorienting' forest staff towards a service role; the formation of user groups to manage the forests; and a programme to monitor, review and analyse the community forestry process.</p> <p>Project areas: Koshi Hills (East: 4 districts) and Dhaulagiri. A project co-ordinator in Kathmandu will contribute to the development of a plan for sustainable management of forests in Nepal.</p> |
| NGO / CBO Participatory Learning and Advisory Project | I | 2,520 | 1997–2002 | <p>To help Nepal's NGOs and CBOs to be more effective and self-reliant organisations. Project activities and outputs will focus on increasing the capacity of members of the NGOs and CBOs. The project will also explore ways of providing post-project support to national, district and local level organisations, supporting the establishment of advice and resource centres, developing alliances and mutual support networks and by strengthening national and regional organisations. The project will also provide support to CBO activities.</p> |
| Nepal Police Project | IV | 1,023 | 1994–9 | <p>Programme of assistance to the Nepal Police with the primary aim of the development of better policing which is responsive to the needs of a democratic Nepal. To achieve these objectives, a mix of inputs including a country consultant, visits from CID trainers, training in the use of firearms and the provision of books and training aids.</p> |
| Financial Management Programme (FMP) | IV | 981 | 1994–7 | <p>Programme aim is to strengthen financial management within the Ministry of Finance (MoF) and the Financial Commission (FCGO). The main initial effort is to develop accounting and expenditure systems within the MoF and the FCGO.</p> |

Annex 2 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 £</i> | <i>Project Period</i> | <i>Short Description</i> |
|---|-------------------------------|--------------------------|---------------------------|---|
| Radio Nepal | IV | 349 | 1994–7 | Programme of assistance to Radio Nepal, including provision of support, training, some books and equipment, and a VSO. The project is to further develop Radio Nepal to play its part as a source of news and information in the context of Nepal's return to democracy. |
| Nepal Administrative Staff College (NASC) | III | 394.5 | 1996–7 | Support to NASC to help it produce a strategic management and financial management system and prepare training materials for training courses. |
| Privatisation Project | IV | 490 | 1997–8 | Provision of a Resident Adviser in the Ministry of Finance to coordinate activities of the Privatisation Cell, prepare bidding material, identify investors and ensure effective completion of transactions. |
| Debt Management | IV | 604 | 1997–8 | The provision of a computerised debt recording and management system in the Ministry of Finance, with links to the Nepal Rastra Bank and the Comptroller General's Office. |
| Public Service Commission (PSC) Phase I | IV | 175 | 1997–8 | Support to the PSC to improve the efficiency of recruitment and management of servants. |
| Hill Agriculture Research Project | III | 11,661 | 1996–2001 | To develop an improved hill agricultural research system in Nepal. The components are: i) the development of an improved hill agricultural research system, a new element of which will be a Hill Research Programme in hill agriculture research ii) support for the institutional strengthening and change of management of the National Agricultural Research Centre (NARC) to take over the administrative and financial responsibility for the Lumbe and other Agricultural Centres (LAC and PAC). |

Annex 2 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 £</i> | <i>Project Period</i> | <i>Short Description</i> |
|--|-------------------------------|--------------------------|---------------------------|--|
| Koshi Hills Seed and Vegetable Programme (KOSEVEG) | III | 1,054 | 1993–7 | The project supports the development of private seed and vegetable production in the Koshi Hills and is designed to increase agricultural production standards and cash income of farmers. This will be achieved through improved seed production and the marketing of improved seeds and farmers' groups. Groups will be further strengthened to market their produce. From July 1995 the project extended its activities into three districts in western Nepal (based in Baglung) to assist seed producers' groups previously established by the Lumle Agricultural Research Centre extension programme. This was a precursor to the proposed seed sector support project due to be implemented in 1997. |
| Soil Nutrient Loss and Fertility Management in Nepal Mid-Hills Project | IV | 140 | 1996–9 | Research on soil nutrient loss and fertility management to formulate recommendations on better farming practice on soil conservation and fertilization leading ultimately to a sustainable improvement in their crop yields. |
| Seed Sector Support Project | III | 3,250 | 1997–2002 | Support to help raise incomes of seed producers by strengthening national institutions involved in the seed sector and improving seed production and marketing. |

Annex 3

3 Nepal Project Portfolio – Germany

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 DM</i> | <i>Project Period</i> | <i>Short Description</i> |
|--|-------------------------------|---------------------------|---------------------------|---|
| Small Farmer Development Programme (SFDP) | I | 10,800 | Start 1987 | The credit programme for small farmers is used to support a development programme of the Agricultural Development Bank (ADB/N) that has been in operation since 1980 and centres on the development of neglected population groups in rural areas. The ADB/N is gradually moving from credit transactions, engaging only, if need be, in the refinancing of individual credit and savings groups. |
| Study and Expert Fund | not specified | 15,100 | start Feb. 1978 | Experts are to be dispatched for six months and reports and recommendations are to be submitted, above all, to identifying, preparing, and following up on projects. |
| Urban Development Bhaktapur / Final Measures | II | 32,200 | 1986–95 | The project aims at improving the living conditions of the rural population and creating over the long term favourable conditions for their economic development. The goal of the follow-up support is to consolidate the successes achieved thus far by concentrating on the operation and maintenance of the installations already created in connection with the project. |
| Solid Waste Management | II | 28,000 | 1976–95 | The project began in 1980 with the aim of improving the hygienic disposal of the populations of the three towns of Kathmandu, Patan, and Bhaktapur, and increasing the quantity of refuse that can be disposed of. |
| Dhading Development Project | I | 25,400 | start March 1983 | The long-term goal is to improve sustainably, or at least to stabilize, the existence of the poor majority of the population in the district. |
| Snow and Glacier Hydrology | IV | 2,600 | 1990–6 | The goal of the project is to improve the effectiveness of the hydrological and meteorological services. |
| Environmental Geology | IV | 5,000 | Start 1990 | The project provides advisory assistance to the Nepalese Government in making more ecologically compatible use of surface-level water resources in preparing landslide risk maps. |
| Seed Production and Marketing | II | 29,000 | 1983–96 | The project aims to improve agriculture's supply of certified seed (wheat, rice, maize) in the lowlands (Terai) as well as in the mountainous districts. |

Annex 3 cont.

| <i>Project</i> | <i>PR- Classification</i> | <i>Volume '000 DM</i> | <i>Project Period</i> | <i>Short Description</i> |
|--|-------------------------------|---------------------------|---------------------------|---|
| Lamjung Development Project | I | 7,100 | start Nov. 1991 | The project pursues the goal of helping the population to utilize its natural potential in a more economically, ecologically, and socially sound fashion. |
| Small Business Promotion (Industrial Enterprises Development Centre) | II | 14,500 | start 1983 | The project centres on programmes to support new businesses through consulting services, management training, and a supplementary programme. |
| Primary Health Care | II | 8,600 | start March 1997 | The project supports the Nepalese government in improving health care by strengthening central planning and management in the health sector, improving the training and advanced training of health-care workers, and developing health-care centres at the district level. |
| NGO Fund Project | I | 1,500 | start Nov. 1994 | The fund supports economic and social activities of Nepalese people, serving local self-help initiatives of disadvantaged and poor segments of the Nepalese population. |
| Urban Development through Local Efforts | II | 25,100 | start mid-1987 | The project's goal is to enable Nepal's 36 towns to utilise efficiently their financial, and natural resources, taking special account of economic, social, and institutional aspects. |
| Animal Project Production | III | 9,700 | start June 1988 | The Department of Agriculture development, responsible for animal production, is to be enabled to improve and more selectively |

Annex 3 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 DM</i> | <i>Project Period</i> | <i>Short Description</i> |
|---|-------------------------------|---------------------------|---------------------------|---|
| Gorkha Development Project | I | 8,400 | start July 1992 | A package of cross-sectoral measures (e.g. adequate participation in creation of agricultural and non-agricultural employment, credit, infrastructure, etc.) is to be used to ensure that the population recognises its development potential and effectively deploys it in the economic and social situation. Furthermore, district-level government and non-governmental institutions are to be enabled to better satisfy the need for services |
| Churia Social Forestry Project | I | 9,000 | start July 1992 | The goal of the project is to reduce the ecological imbalance of the forests in the Southeast of the country. This is to be achieved through forestry on private land, developing methods for efficiently producing forest products, and creating non-forestry sources of income with a view to reducing the pressure to exploit the forest. |
| Support for tax administration | III | 3,800 | Presumably 1997 | The project is to provide a contribution to raising the country's tax revenue by mobilising its own tax resources, while at the same time adhering to the principles of an orderly, equitable, and development-compatible tax system. |
| Integrated economic support | II | 4,000 | Presumably 1997 | The project aims to increase the vitality of newly founded and existing companies from small and medium-size industry. |
| Improvement of the situation of working children | III | 3,000 | Presumably 1997 | The project is planned to enable the responsible labour ministry to implement measures aimed at reducing child labour. |
| Poverty alleviation through help for self-help in the Arun region | I | 5,000 | Presumably 1997 | The project's goal is to improve the socio-economic living conditions of the underprivileged population; the project's main target groups are, i.e. small farmers and landless persons, underprivileged caste groups. The intention is to embark on the project in the spring of 1997. |
| Rehabilitation of Chobar cement factory | IV | 24,000 | Since 1984 | Rehabilitation of Himal Cement Corporation's cement factory in Chobar, funded with FC commodity aid and has been in operation since 1984. |

Annex 3 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 DM</i> | <i>Project Period</i> | <i>Short Description</i> |
|---|-------------------------------|---------------------------|---------------------------|--|
| Nepal Industrial Development Corporation (NIDC) | IV | 19,000 | Since 1964 | The NIDC is Nepal's only industrial development bank. The fund investment projects of small and medium-sized private artisanal area and processing industries (without tourism) |
| Marsyangdi hydroelectric power plant | IV | 187,600 | Since mid–1985 | Construction of a 69–MW hydroelectric power plant, to be connected to the Nepalese network. |
| Basic health-care programme | II | 9,000 | 1994 | The goal of the project is to improve provision of sub-health centres and basic medicines. |
| Immediate aid / reconstruction of Tribhuvan Highway bridges | IV | 6,000 | 1993 | Reconstruction of various bridges and road sections of the Tribhuvan Highway (that were destroyed during the heavy monsoon rainfall in July 1992, in the Naubise section), in the framework of an immediate aid programme. |
| Rehabilitation of bridges | IV | 9,000 | 1996 | Construction of a new bridge over the Samari River in the Samari area, rehabilitation of the Bagihora river crossing, and small-scale rehabilitation of river banks. |
| Co-operation project: urban development programme | II | 10,000 | 1995 | The project's goal is to improve the provision of Nepal's urban infrastructure social and economic infrastructure facilities. |
| Programme to promote biogas plants | II | 14,000 | 1996 | The goal is to provide farming households with environmental energy for cooking and lighting with the aid of biogas plants. |
| Family planning programme | II | 14,000 | Presumably 1997 | The programme is designed to improve the supply of contraceptive services, and mother-child health care. |
| Marsyangdi hydroelectric power plant | | Planned 160,000 | | Establishment of a 42 MW hydroelectric power plant and its connection to the national grid. |
| Expansion of Kathmandu network control centre | IV | Planned 40,000 | | The project is designed to build a modern network control centre for the power plants and transformer stations in Nepal's integrated power system connected in order to achieve an efficient operation of the system. |

Annex 3 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 DM</i> | <i>Project Period</i> | <i>Short Description</i> |
|----------------------------------|-------------------------------|---------------------------|---------------------------|---|
| Melekhu–Dhading Besi Road | IV | 3,200 | Presumably 1998 | Blacktopping of Melekhu–Dhading Besi Road to allow all year-round traffic |
| District Family Health Project | I | 14,800 | Presumably 1998 | Comprehensive improvement of family planning and health services, and reproductive health in up to 10 districts |
| Maintenance in the Health Sector | III | 4,000 | Presumably 1998 | Establishment of an administrative and organisational framework for the maintenance of public health institutions plus the introduction of a computerised system |
| Community Drug Programme | I | 2,000 | Presumably 1998 | Establishment of a community-based provision system of essential drugs at local health institutions |
| Small Hydro-Power Fund | II | 4,000 | Presumably 1998 | Private sector-based development of small hydro power generation projects with income-generating impact on rural communities |
| Support for Food-for-Work | I | 1,300 | Start 1996 | Project contributes to a qualitative and quantitative improvement in the availability of poor households. The food-for-work activities are carried out in the form of |

| | | | | |
|--|--|--|--|--|
| | | | | the rehabilitation and improvement of local infrastructures. |
|--|--|--|--|--|

Annex 4

| 4 Nepal Project Portfolio – DANIDA (Denmark) | | | | |
|---|-------------------------------|----------------------------|---------------------------|--|
| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 DKK</i> | <i>Project Period</i> | <i>Short Description</i> |
| Renovation of the Dairy Sector and Consultancy Services | III | 100.000 | 1988–92 | Rehabilitation of 3 regional dairies and 2 dairies in Kathmandu. The project includes a feasibility study plus design of a 10 Year Dairy Development Plan 1988–92. The project aims to: 1) assist HMG/N to become self-sufficient in dairy production and processing; 2) ensure reliable production management of dairies and the collection of milk; 3) assist in long-term planning within the dairy sector. |
| Skimmed Milk Powder Plant | II | 23.700 | 1993–94 | Establishment of a Skim Milk Powder plant to process milk and produce powder for reconstitution and sale later in the lean season. Aiming to reduce dependence on imported skimmed milk powder and butter. The project aims to improve incomes of dairy farmers. |
| The National Dairy Development Board | III | ? | ? | Establishment of a self-financing dairy development board to formulate dairy policy and development of production, processing and marketing. The project aims to secure a maximised farmers' share of the consumers' price. On the other hand, the project also aims at increasing the availability and self-sufficiency of milk in Nepal. |
| Basic and Primary Education Project | III | 63.200 | 1993– | Technical and financial support for Nepal's educational system. The project aims to improve and develop existing educational structures, management and teaching methods to promote equality in access, quality and good management. The project covers Nepal's 75 districts fully and 15 partially by the project. The project activities include: development of teacher resource centres, development of women's education, non-formal (out-of-school) primary education, and rehabilitation and maintenance. |
| Fourth Telecommunications Project | IV | 115.000 | 1986–92 | Danish tied grant funding of telecommunications equipment. The project is part of the fourth phase of a large World Bank -led multi-donor telecommunications project which has been in existence since 1969, aiming to provide nationwide telecommunications services to the people of Nepal. |

Annex 4 cont.

| <i>Project</i> | <i>PR- Classification</i> | <i>Volume '000 DKK</i> | <i>Project Period</i> | <i>Short Description</i> |
|--|-------------------------------|----------------------------|---------------------------|--|
| TA to Nepal Telecommunications Corporation | IV | 19.900 | 1992–8 | Support NTC to become independent in planning, construction and maintenance of the telecommunications system. Helping NTC to upgrade and expand the organisation's technical and management systems. |
| Fifth Telecommunications project | IV | 160.000 | 1993–8 | Providing modern telecommunications services to the Nepalese population by clearing 70–80 % of the existing subscriber backlog (120.000 subscribers) by the end of 1998. |
| Community Forestry Training Project | II | 32.700 | 1989–96 | Mobilising people and resources in the Hill districts to establish a forest management system which would conserve and expand the forest resources needed to sustain traditional farming systems and livelihoods. Supporting the Department of Forests (DoF) in identification of forest users and their organisation into User Groups, with a view to prepare Operational Plans and given user rights to state forests which have traditionally used for forest products. |
| Tree Improvement Programme | II | 14.700 | 1992– | Identification, selection and registration of seed stands for selected tree species as well as training programmes for forestry officers, extension representatives and seed collectors. Three components: 1) identification of seed stands, 2) strategy formulation, 3) advanced tree improvement programme for selected species. |
| Strengthening of Local Administration | III | 19.500 | 1993–7 | Training of trainers and institution building of the Local Development Academy in Kathmandu with the aim of enabling the Academy to provide training of District and Village Development Committee members and representatives on their powers and responsibilities under the Local Government Act, and on financial management, accounting and problem solving. Testing and developing a strategy for a pilot Local Development Fund in 10 out of Nepal's 75 districts. |

Annex 4 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 DKK</i> | <i>Project Period</i> | <i>Short Description</i> |
|--------------------------|-------------------------------|----------------------------|---------------------------|--|
| Embassy Grants Programme | I and III | 47.577 | 1990–95 | Fast and simplified procedure for approving Danish support scale activities, e.g.: new pilot scale projects, additional del supported projects, bridging arrangements for transition per DANIDA project phases, assistance for local consultancies to DKK 50.000. During period from 1990 to 1995 the Royal has supported 85 projects through the Embassy Grants Pro |

Annex 5

| 5 Nepal Project Portfolio – The Netherlands | | | | |
|--|-------------------------------|--|--------------------------------|---|
| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 Dfl (person years)</i> | <i>Project Period</i> | <i>Short Description</i> |
| Community Water Supply and Sanitation Programme (CWSS) | I | 3,440 (85 person years) | 1977–93 (Dutch involvement) | Supply of drinking water, hygiene and sanitation. Co-financed by international volunteer organisations. Execution by Unicef and others, integrated to DWSS / HMG/N. Dutch <i>development associations</i> in poor regions (Central and Mid-Western) surveying, designing water supply and sanitation schemes. Disadvantaged communities prioritised in site selection. |
| Production Credit for Rural Women (PCRW) Programme | I | 6,006 (47 person years) | 1983–92 (Dutch involvement) | Programme started by the Nepalese Ministry for Panchayat Development and Unicef, and joined later by the Dutch, IFA, USAID and volunteer organisations. The programme's idea was to educate Nepalese women to remote areas with expatriate women to raise awareness, to stimulate savings and credit group formation (<i>collateral</i>), income-generating activities and other community development activities. |
| Trail Bridge Building Programme | I | 5.400 (30 person years) | 1982–92 (Dutch involvement) | Follow-up of a programme initiated by CARE. Objectives: to build bridges and to train local overseers and craftsmen. 20 bridge-building organisations ('turn-key approach'). Technical quality of construction insufficient attention to institutional aspects, e.g. maintenance. Disadvantaged communities identified as a specific target group. |
| Karnali Local Development Programme (KLDP) | I | 5,540 (22 expatriate person years + Nepalese professionals) | 1981–ongoing | Extension of the trail bridge project. A self-managed, participatory rural development programme under MLD. Implementation by Kathmandu-based NGOs. Bridges, cable carts, trails, hydro-power, youth hostel, group formation, awareness-raising, non-formal education and sanitation (pit-latrines), vegetable nurseries, kitchen gardens, credit, income-generating activities, agriculture, improved services, etc. Teachers to Karnali Technical School. Target group: the rural population, but no special attention paid to the landless and low-income groups. Institutional strengthening of local authorities. Mixed results. |

Annex 5 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 Dfl (person years)</i> | <i>Project Period</i> | <i>Short Description</i> |
|---|-------------------------------|---|--------------------------------|--|
| Mechi Hills Development Programme (MHDP II) | I | 14,690 (77 person years, incl. TIP) | 1982–97 (Dutch involvement) | Background: ILO-funded Terrace Irrigation Project (TIP) 1982–97. Target: rural population with special attention to deprived groups and women, aiming at improving their level of self-reliance in an ecologically sound manner. Activities: irrigation, water supply & sanit., trails, bridges, small hydro, erosion control, agric. extension, WID, user group formation, strengthening of local government institutions. Primary target group: rural population below poverty line, defined by participatory approaches as: those with less than 0.75 ha of land, no irrigated land, less than 5 lands, less than 6 months food sufficiency per year, and those who have no access to school. (46 % of total population considered as target). Positive results, though women were less involved than in K... |
| Biogas Support Programme (BSP) | II | 4,640 | 1992–ongoing | The primary objective of BSP is to reduce dependence on traditional agricultural waste, and dung cakes as cooking fuel and to improve the living conditions of rural-based families. The target group of BSP is rural population who own at least one head of cattle and who live below the poverty line, 100 meters above sea level. (So: the poorest families could not benefit). Technically, biogas is an effective and feasible means of alternative energy. About 1.3 million households in Nepal (60 % of all households). A total of 25 private biogas companies, banks, 25 NGOs. About 20,000 biogas plants constructed. |
| Agroforestry and Community Development Programme (AFCDP II) of the Annapurna Conservation Area Project (ACAP) | I | 1,520 | 1990–1995 | The overall objectives of AFCDP II are to strengthen local institutions for sustainable development; to contribute to environmental sustainability; to improve the provision of basic needs and awareness raising, and to improve the agricultural productivity of the area through the use of agroforestry systems. |

Annex 5 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 Dfl (person years)</i> | <i>Project Period</i> | <i>Short Description</i> |
|--|-------------------------------|---|---------------------------|--|
| Praja Community Development Programme (PCDP) | I | 190 | 1992 – ongoing | To improve the social and economic situation of the Praja community in a gender-sensitive way by enhancing ecologically sustainable livelihoods, natural resources and to improve the external relations of the Praja community. |
| Income Generating Project for Women Farmers (CEAPRED) | I | 3,338 | 1996–1997 | To raise the cash income of women farmers and their families through their participation in project activities, thus to enable them to meet their basic needs; and to promote the nutritional status of diets and optimal health for the establishment of long-term sustainable income-generating activities. |
| Hills, Leasehold Forestry, and Forage Development Project (HLFFDP) | I | 4,722 | 1991–7 | The Hills Leasehold Forestry and Forage Development Project has the following objectives to raise the income of families below the poverty line, to simultaneously contribute to the improvement of ecological sustainability, and to encourage farmer participation in rehabilitating, managing and developing degraded forest lands in ways that are likely to be sustained). This is to be achieved through the conversion of degraded forest to groups of poor households. The target groups are poor, marginalised people who own less than 0.5 ha of land. |
| Support Centre for Victims of Torture (CVICT) | I | 461 | 1996 | To provide psycho-social support for traumatised people from neighbouring countries. This project will have a positive impact on the lives of victims of torture who present themselves for treatment each year. There is also an unknown number of people who will not be treated. CVICT's human rights awareness campaigns aimed at the public have been successful. To date 2,331 Bhutanese refugees have been tortured, with the number of tortured refugees unknown. |

Annex 5 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 Dfl (person years)</i> | <i>Project Period</i> | <i>Short Description</i> |
|---|-------------------------------|---|---------------------------|---|
| Bengas Tal Rupa Tal Watershed Management Project | II | 3,964 | 1989–97 | To stabilise the physical environment and to increase the productivity of the project area through sustainable community management of natural resources. The target group are the surrounding communities through promotion of natural resource management and small income generating activities. |
| Shechen Maha Buddha Vihara Institute | IV | 151 | 1996–7 | To preserve traditional Tibetan Buddhist religious art. |
| The Royal Bardia National Park Conservation Programme | IV | 2,804 | 1996–2000 | To conserve the rare and endangered animal species that reside in the Bardia National Park area. There are 15 VDCs near or around the park with an estimated population of nearly 17,000 households and over 100,000 people. The target group includes the local people, visitors, park protection unit and park staff. Students, teachers, NGO leaders, and social workers can be included in the target group. |
| Irrigation Management for Economic Development (IMED) | II | 1,770 | 1992–7 | The poorest of the poor, marginal farmers, tribal or formerly backward communities have always come under the SC / U category. However, the IMED project beneficiaries have been particularly those who received agricultural training, 32.5 % of the total participants are women. The project which are linked with forestry cum agriculture the involvement of women in decision-making of production activities is major. In total, nearly 100,000 people in the three districts of project implementation have benefited from the project's irrigation and agricultural activities. It is estimated that approximately 200,000 community members will indirectly benefit from observing newly introduced agricultural practices. |
| Enhanced Support for HIV Prevention in Nepal | III | 2,453 | 1995–9 | To prevent the spread of HIV infections in Nepal by improving the effectiveness of HIV / STD prevention strategies currently being implemented in Nepal's NGO sector. |

Annex 5 cont.

| <i>Project</i> | <i>PR– Classificatio</i> | <i>Volume '000 Dfl (person years)</i> | <i>Project Period</i> | <i>Short Description</i> |
|---|------------------------------|---|---------------------------|---|
| Mahottari Natural Resource Management Project II | I | 4,042 | 1995–9 | To strengthen the self-reliance of the participating communities and meet their basic needs. Approximately 50,000 people (most of whom are poor and deprived) are considered as the target group. |
| The Makalu Barun National Park & Conservation Area Project (MBCP) | IV | 4,525 | 1988–7 | To protect the rich biodiversity of the area while promoting sustainable development and income-generating activities for the local people. The overall goal of the project is to conserve biodiversity, the environment and the people. The target group (32,000 people) is considered the target group. Some specific target groups, such as women. |

Annex 6

| 6 Nepal Project Portfolio – Finland | | | | |
|---|-------------------------------|---|---------------------------|---|
| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 FIM</i> | <i>Project Period</i> | <i>Short Description</i> |
| Forest Resources Information System Project (FRISP), Phase III | IV | 8.000 | 1996–9 | Design of a national forest inventory covering the whole of Nepal. Production of new satellite maps and topographic forest maps. Institution of the national Forest Research and Survey Centre, as well as development of a forest inventory system. Finnish assistance consists of technical assistance. |
| Rural Water Supply and Sanitation Project (RWSSP), Lumbini Zone, Phase II | II | 17.300 | 1996–9 | Strengthening drinking water and sanitation services and expanding them in 6 districts through a highly participatory, demand-driven approach. Training and strengthening of water user groups, small-scale enterprises as well as village and district-level committees. Planning, utilisation and maintenance of water supply and sanitation services. Co-financing of investments, on the condition that user groups and the HMG/N are prepared to pay their shares. |
| Micro Finance Project | II | 1.500 (com- mitted), 11.000 (planned) | 1997– | At a planning stage. Development objective to improve the economic status of women. Immediate objective: to support women's opportunities in rural areas and improve their livelihoods. In the first phase Finland plans to participate in a micro-finance programme initiated by the Asian Development Bank. |
| Khimti Power Plant Transmission Line and Substations Project | IV | 70.000 | 1996– 2000 | Construction of 100 km of power transmission line plus substation at Khimti hydropower plant to Kathmandu. Joint financing with the Asian Development Fund (NDF), Germany, HMG/N and the Nepal Electricity Authority (NEA). Finland will finance the procurements of the Finnish equipment. |
| Biratnagar Diesel Power Plants I + II + Environmental Improvements | IV | 78.000 (Plant I) 20.900 (Plant II) 7.000 (env.impr.) | 1989–98 | Soft loan funding for two additional 6,5 MW diesel generating sets at the site where Finland supplied the Biratnagar diesel power plant in 1989–93. Supply and assembly of a new waste treatment system, a heightened gas exhaust chimney to the older plant, intended to reduce existing noise, exhaust gas, waste oil and other environmental impacts. Operator training plus environmental awareness raising. |

Annex 6 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 FIM</i> | <i>Project Period</i> | <i>Short Description</i> |
|--|-------------------------------|----------------------------|---------------------------|--|
| Tele-communication Project V | IV | 27.200 | 1994–7 | Joint financing with the World Bank, DANIDA, Japan and t supplied the optical cables and has designed – and trained th new computerised business management system for Nepal T Corporation (NTC). Status: terminated. |
| Export promotion: (PRODEC / FNCCI Joint Nepal Project) | II | 5.000 | 1995–8 | Promoting the capacity of small and medium-sized private M mainly in garment and handicraft sectors, to export to the E markets. Improving the capacity of the Federation of Nepal Commerce and Industries (FNCCI) to train potential export future. |
| Environmental Sector Development Project | III | 20.000 | 1996–9 | In planning stages: The project will consist of three indepen sub-projects: a) support to environmental administration in l support to the creation of an eco-labelling system for Nepal support fund for Nepalese environmental NGOs. |
| Eastern Nepal Topographic Mapping Project | IV | 27.800 | 1992–7 | Production of topographic maps for the eastern half of Nep and handed over. |
| Western Nepal Topographic Mapping Project | IV | 20.000 | 1995–9 | Assisting the Survey Department of the Ministry of Land R Management in the production of topographic maps for the Nepal. |
| Support to Democratisation | III | 1.500 | 1997– | In planning stages. Intention to support the principles of der governance in Nepal, particularly decentralisation (in good o other donors, e.g. UNDP and DANIDA) and political proces democracy. |

Annex 6 cont.

| <i>Project</i> | <i>PR– Classification</i> | <i>Volume '000 FIM</i> | <i>Project Period</i> | <i>Short Description</i> |
|---|-------------------------------|--|---------------------------|--|
| Integrated Development of Bara District | I | 4.300 (intended) 500 (com- mitted) | 1997– | In planning stages. Intention to support participatory planning, management and utilisation, and other rural development in Central Terai. This planning phase follows from the Finnish Management and Utilisation project (FMUD) and is intended to be related to the new mode of forest management proposed by a joint venture of private Nepalese and Finnish companies.) |
| Education Sector Support | III | 25.000 | 1997– | Joint financing for the education sector (in first phase the BPEP Education Programme, BPEP) in co-ordination with other donors (World Bank, EU, Unicef, DANIDA, Japan and possibly Norway). Currently in planning stages. |